ADMINISTRATION'S SMALL AND MINORITY ENTERPRISE DEVELOPMENT PROGRAMS

HEARING

BEFORE THE

SUBCOMMITTEE ON SBA AND SBIC AUTHORITY, MINORITY ENTERPRISE AND GENERAL SMALL BUSINESS PROBLEMS

OF THE

COMMITTEE ON SMALL BUSINESS HOUSE OF REPRESENTATIVES

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ADMINISTRATION'S SMALL AND MINORITY ENTERPRISE DEVELOPMENT PROGRAMS

WEDNESDAY, JUNE 16, 1982

HOUSE OF REPRESENTATIVES, COMMITTEE ON SMALL BUSINESS, SUBCOMMITTEE ON SBA AND SBIC AUTHORITY, MINORITY ENTERPRISE AND GENERAL SMALL BUSINESS PROBLEMS,

Washington, D.C.

The subcommittee met, pursuant to notice, at 9 a.m., in room 2359-A, Rayburn House Office Building, Hon. Parren J. Mitchell (chairman of the subcommittee) presiding.

OPENING STATEMENT OF CHAIRMAN MITCHELL

Mr. MITCHELL. The hearing will come to order.

Good morning. For at least 15 years, the Federal Government has maintained a commitment to minority business enterprise development. This commitment has transcended political and ideological differences because it has been impossible for the Federal Government to deny the value to this Nation of enterprise development for minorities.

The Federal delivery systems for MBE development are primarily the U.S. Department of Commerce and the Small Business Administration. The administration has announced its intention to strengthen and increase Federal assistance for minority small business. But how successful have past efforts been? Today's economic conditions make it exceedingly difficult for any small business to succeed.

For those entrepreneurs who face obstacles of bias, systemic discrimination, and prejudice by Government and private sources, the path is even more perilous.

Fiscal austerity, the diminution of entitlement programs and the scarcity of private resources argue strenuously for continued Federal intervention in entrepreneurial development.

The Federal commitment to minority enterprise development should result in the development and delivery of effective, coordinated, and relevant programs.

Effective programs are programs which result in strong, viable small businesses run efficiently and productively by minority entrepreneurs.

Effective programs are programs which provide access to Government markets historically closed to under-represented Americans.

Effective programs are programs which promote the cause of MBE's in private financial and marketing sectors.

Effective programs are Federal efforts which contribute substantially to the improvement of minority communities and increase the productivity of its residents.

Despite the fact that business failures are at the highest level since 1932, and notwithstanding the vast contributions small and minority businesses are making to this economy, the administration—under the guise of budgetary restraints and program efficiency—is moving in a direction that appears to be counterproductive to the needs of the small and minority business community.

This country can ill afford a collapse of the most productive segment of the economy, the small business community.

Today's hearing will probe into two existing minority business programs at SBA and MBDA. The committee intends to assess the impact of these programs and to evaluate their future direction in light thereof.

We will also hear from scientists who have examined the essential components of an effective enterprise development program and from representatives of the targeted recipient groups. We are pleased to have James Sanders, SBA Administrator, who has become a frequent guest of this committee, and a less frequent visitor, Victor Rivera, Director, MBDA.

Additional witnesses represent the Black and American Indian business communities.

Welcome.

We will now hear from Mr. Addabbo.

OPENING STATEMENT OF HON. JOSEPH P. ADDABBO, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Mr. ADDABBO. Mr. Chairman, you know that I fully support your efforts to improve our minority business program at the Small Business Administration and the Minority Business Development Agency. Briefly, I would like to make a few comments about my concerns with this administration's mishandling of the only programs available for encouraging the growth of minority business.

First, SBA has not resolved the problems which impede adequate program delivery of the section 8(a) program. We continue to receive reports that SBA is sitting on papers, and that SBA is missing important deadlines with procuring agencies.

The result will be that agencies simply will not bother to submit any contracts to SBA for the 8(a) program. In short, SBA will demolish the 8(a) program from within. I hope Mr. Sanders can tell us how these problems are being resolved.

Second, SBA's May 24 rulemaking illegally limiting the bounds of the certificate of competency program has reopened Pandora's box.

As original sponsor of Public Law 95–89, which mandated the certificate of competency program, I am deeply disturbed by, and take strong exception to the arbitrary action of SBA to try to remove the right of small firms to apply for a certificate of competency where the procurement is for less than $10,000.

I say "try" to make such a change because the final rule is clearly illegal. It violates the Small Business Act, the Administrative

Procedure Act, the Regulatory Flexibility Act, as well as the SBA's own regulations.

In addition, the SBA action is against the clear weight of all legal precedent on this issue, including a decision by the Comptroller General of the United States. Even if the rulemaking were procedurally sufficient and did not violate its own regulations and statutes, SBA's decision is simply wrong.

The attempt to limit certificates of competency to only those contracts $10,000 or over is inimical to the policies underlying this vital right. It tells procurement officers, "Go ahead, squeeze out small and minority firms from small purchases. We at SBA don't really care."

If the rule is not rescinded, no longer will contracting officers have any incentive to give small firms fair consideration for contracts under $10,000. They can arbitrarily deny a low bidder to a contract the right to receive an award. In short, the SBA rulemaking is a turkey, and should be rescinded as soon as possible.

Finally, I would like to repeat my position that despite the many problems with the section 8(a) program, it would be a mistake to obscure the real causes of those problems by sending the program over to the Minority Business Development Administration; they have their own problems. I will continue to oppose any attempt to shift 8(a) program responsibility to the Department of Commerce. I look forward to hearing from Mr. Sanders, Mr. Rivera, and the other witnesses.

Thank you.

Mr. MITCHELL. Our first panel of witnesses will be Hon. James C. Sanders, Administrator, Small Business Administration, Dr. Robert L. Wright, Jr., Associate Administrator for Minority Small Business and Capital Ownership Development of the Small Business Administration, and Mr. Robert F. McDermott, Associate Administrator of Procurement and Technology Assistance of the Small Business Administration.

Mr. Sanders, we will hear from you first.

PANEL CONSISTING OF HON. JAMES C. SANDERS, DR. ROBERT L. WRIGHT, JR., AND ROBERT F. McDERMOTT

TESTIMONY OF HON. JAMES C. SANDERS, ADMINISTRATOR, SMALL BUSINESS ADMINISTRATION

Mr. SANDERS. Mr. Chairman and members of the subcommittee, I want to express my gratitude for the opportunity to appear before you today to discuss issues relating to the Small Business Administration's programs for socially and economically disadvantaged entrepreneurs and our section 211 subcontracting program.

Accompanying me are Dr. Robert L. Wright, Jr., Associate Administrator for Minority Small Business and Capital Ownership Development, and Robert F. McDermott, Associate Administrator for Procurement and Technology Assistance.

MINORITY SMALL BUSINESS AND CAPITAL OWNERSHIP DEVELOPMENT PROGRAMS

I shall turn first to SBA's Minority Small Business and Capital Ownership Development programs.

Through these efforts, the SBA fulfills an important mission: That of providing the maximum practicable opportunity for participation in our free enterprise system by disadvantaged groups and individuals. Despite criticisms frequently leveled against these programs, I believe the opportunities SBA provides are among the best tools in Government to facilitate entry of small disadvantaged businesses into the mainstream of the Nation's economy. In particular, the 8(a) program has afforded many businesses access to Government contracts as well as to targeted technical, marketing, and financial assistance.

These 8(a) firms not only have provided goods and services to the Government at fair and reasonable prices, but also have contributed to the economic health of communities in which these concerns are located. We estimate that the 8(a) program is responsible for the creation and retention of some 32,000 jobs.

While we are pleased with the positive achievements of the 8(a) program, we are, nonetheless, cognizant that the program is not without its problems. From the beginning, this administration has sought to refine, restructure and improve the delivery of the 8(a) program. Approximately 1 year ago, my predecessor listed existing problems and announced tough new policies designed to overcome inequities and foster necessary improvements.

Mr. Chairman, I am pleased to state that the Small Business Administration has made great strides in the past year in meeting 8(a) program improvement objectives.

New procedures were instituted last year which required the Administrator's approval of certain requests for advance payments, business development expenses, the award of contracts to other than small concerns, and high dollar volume contract offerings. These procedures resulted in improved decisionmaking by encouraging more comprehensive reviews at the district and regional levels. However, they also caused unacceptable delays in the procurement process which lies at the heart of the 8(a) program.

We became concerned that procuring agencies' willingness to offer the number and quality of contracts needed to insure the program's success would be jeopardized.

Accordingly, in April of this year, I returned approval authority to the field for BDE requests up to $100,000, advance payments up to $500,000, and contract offerings up to $5 million. Requests exceeding those amounts must be approved by the Associate Administrator for Minority Small Business, Dr. Robert L. Wright, Jr., and in certain cases, must still receive my approval.

Under the revised system, we estimate that more than 70 percent of these waiver requests will now be handled by the field offices. Thus, most requests are now processed in a more timely fashion while continuing to receive improved comprehensive analysis and consideration.

SECTION 8(A) SIZE REVIEWS

Last year new emphasis also was placed on fostering 8(a) program integrity by identifying and reviewing 8(a) firms suspected of exceeding SBA's size standards.

Field offices were directed to review the size of the 8(a) program's top 42 firms as well as other firms believed by field officials not to be small firms. Of the firms reviewed, 28 were determined at the initial level of review to have exceeded the size standards.

Four firms apparently chose not to contest our field size decision and consequently did not file an appeal with SBA's Size Appeals Board. Of the 24 cases that were appealed, the Board denied 15 and thus affirmed the field determinations that such firms violated the size limits. In five cases, the Board affirmed the 8(a) concern's appeal and overturned the regional office's finding; two cases were dismissed and two are pending.

It is the SBA's intention to undertake size reviews in the future on an as needed basis. However, we believe the need for such reviews should diminish with the full implementation of tighter program controls including fixed terms, adherence to realistic 8(a) contract support levels, more equitable contract distribution, and extensive annual reviews of each participating concern's progress. Our program refinements should discourage inordinate dependence on 8(a) contracts and other SBA assistance for business profitability and growth.

Our resources will provide strategic aid. But program participants will also have to rely on non-8(a) resources to complement and ultimately replace limited SBA assistance as these firms develop toward competitiveness.

FIXED PROGRAM PARTICIPATION TERM

Mr. Chairman, one of the principal challenges SBA faced last year was implementing the requirement of Public Law 96-481 to establish fixed terms or graduation dates for 8(a) firms. As you know, Public Law 96-481 was enacted on October 21, 1980. The previous administration did not take action to implement it within the timeframes mandated by the statute. Without quick and decisive action on the part of the administration last June, substantial disruption of the 8(a) contracting process could have occurred.

On June 1, 1981, SBA published an interim rule providing temporary participation terms in order to keep the 8(a) contracting process alive. On the same day, we also published proposed rules setting forth criteria for establishing fixed terms. After receiving substantial written comments and conducting public hearings around the country, final regulations were published on November 23, 1981. Revised business plans were required by law to be submitted to SBA within 2 months after the promulgation of final regulations.

Thus, on November 23, SBA mailed to each 8(a) firm a copy of the final regulations, a revised business plan form, and a letter from Associate Administrator Wright explaining the requirement of the law and advising the firm of its obligation to complete and submit the revised business plan to SBA by January 25, 1982.

Firms which failed to submit a revised plan by January 26 were sent another letter warning of the consequences of failure to comply with this requirement of the law.

In many cases, firms which persisted in failing to submit the plan were further contacted. In each case, the firm was warned that the law required all periods of participation to be fixed by April 21, 1982, without exception.

Mr. Chairman, I am pleased to report that despite the initial fears expressed by some companies when our regulations were first published, the 8(a) firms accepted the process and negotiations were held in good faith.

Of the 2,278 firms in our portfolio prior to April 21, 1982, 1,876 firms received a fixed term. Thc remaining 402 firms, or 17 percent of the portfolio, did not receive a term due to failure to submit the required revised plan or failure to supply all required information. Accordingly, these firms have lost their eligibility.

In negotiating fixed terms for the remainder of the portfolio, SBA was confronted with a serious time problem. Since all dates were required to be established by April 21, 1982, and since no negotiations could occur prior to SBA's receipt of revised business plans due on January 25, 1982, SBA had less than 3 months to analyze information submitted by the firms, apply fixed-term criteria and arrive at a mutually acceptable term with the firm.

SBA used procedures which could be applied fairly and easily to all firms in the portfolio. A set of evaluation factors related to all criteria required in our final rule was applied to each firm. Most of the factor information was objective and was supplied to SBA by the 8(a) firms themselves.

Mr. Chairman, I would like to submit a chart which shows the distribution of Fixed Program Participation Terms (FPPT's) by region. The chart indicates that approximately 70 percent of the firms in our portfolio received FPPT's of 3 years or more. We believe that those firms which received FPPT's of 1 to 2 years have largely overcome the economic impediments with which they entered the program and are thus ready for program completion.

[The chart referred to above follows:]

NUMBER OF 8(a) FIRMS WITH FPPT'S OF VARIOUS LENGTHS

Region	Years—									
	1	1½	2	2½	3	3½	4	4½	5	Total
I	11	8	4	1	24		36			84
II	*16	16	17	1	41	1	47		7	146
III	22	41	45		118	1	165		78	470
IV	15	13	23	1	48		64		4	168
V	7	22	27		48	2	57	25		188
VI	*34		27		73		68		5	207
VII	2	10	13		19		19		8	71
VIII		13	7	2	28	4	43	1	13	111
IX	42	22	35	3	71	8	71	3	28	283
X	21		22	2	28	5	49	2	14	143
Total	170	145	220	10	498	21	619	31	157	1,871

In order to provide for a smooth transition of these firms out of the 8(a) program, SBA has entered into an interagency agreement with the Minority Business Development Agency, or MBDA, whereby our two agencies will engage in a cooperative venture to identify private sector opportunities for such firms. MBDA has indicated its intent to cooperate with 8(a) firms which have completed the program with management, technical, and financial assistance.

Due to a moratorium imposed on new 8(a) applications for most of the past year and due to the time and effort required of SBA minority small business personnel at all levels to establish fixed terms, the processing of 8(a) applications was deemphasized.

However, we believe that demand for program entry remains strong. Thus, we expect a greatly increased workload during the coming months, particularly since revised business plan forms are now available in SBA field offices and the moratorium on new applications has been lifted. Revised standard operating procedures related to application processing should be issued shortly. These procedures should speed the application process and preclude the buildup of the type of application backlogs we experienced in the past.

DATA COLLECTION

In implementing the new 8(a) program policies our fine career civil servants have done a yeoman's job while operating under intense pressure. Despite our progress to date, much remains to be accomplished. One area that needs improvement is our data collection system.

The present information system was designed to provide the SBA with a centralized data base of 8(a) program financial information, particularly those transactions pertinent to advance payments and business development expense.

I intend to organize a task force this week to study the data management needs of the entire agency. I am putting a high priority on the implementation of management information systems throughout the agency, including MSB-COD.

MSB-COD OUTREACH

As SBA redoubles its efforts and takes steps to strengthen 8(a) program planning and management through increased automation, the agency will also focus greater attention on its MSB-COD outreach and capital ownership development efforts. Over the past year, we conducted 11 conferences throughout the country for all 8(a) contractors to advise them of our new program direction, including fixed program participation term procedures. Through our section 7(j) authorization, we have funded for fiscal year 1982 various projects sponsored by several minority trade associations and have further funded their operating expenses.

Plans are now being finalized for 20 intensive training symposiums to be held prior to the end of this fiscal year in locations around the country. The curriculums include such subjects as "Contract Cost and Pricing," "How to Market to the Private Sector," "Management Strategies for Smaller Businesses," and "Marketing with the Federal Government."

The training programs will be for the benefit of 8(a) contractors as well as non-8(a) disadvantaged entrepreneurs.

We have also engaged in extensive agency outreach this past year in our attempt to improve the lines of communication which are so important to the spirit of cooperation which must exist in order for the benefit of the 8(a) program to be fully realized by our constituents.

Representatives from the Office of MSB–COD have met personally with most of the 70 representatives of the buying agencies.

We are planning to form a council of representatives from such agencies to meet on a periodic basis to discuss issues of mutual concern.

Another example of the outreach in which we continued to be involved this year is a special initiative aimed at increasing the number of 8(a) firms in Puerto Rico.

We are working together with the White House, the Department of Defense, and the Puerto Rican Government to identify labor intensive minority firms in an effort to provide the opportunity for business development as well as jobs to those suffering the ravages of an unemployment rate which is nearly 25 percent in that area.

Private sector outreach efforts have also gotten underway this year. Our Presidential Advisory Committee is currently exploring incentives to leverage additional private sector commitment to and involvement in the minority business development process. The current PAC is concentrating almost entirely on the private sector.

Associate Administrator Wright is promoting the interest of minority small business in many ways. He has maintained regular communication with 8(a) concerns and with minority trade associations. He has also met with major corporations, commercial lending executives, and nonminority business people to develop business relationships with disadvantaged concerns.

These examples are not exhaustive; rather they are intended to illustrate our determination that our outreach activities not fall short of the statutory charge given us by Public Law 96-481. Indeed, insuring that our disadvantaged business effort includes more than the 8(a) program alone is one of our priorities.

Another important area of our responsibility is the 7(j) program. Earlier this year we sought proposals for management and technical services to be provided in 117 areas throughout the country. The solicitation included services for 8(a) firms (section 7(j)(10)) as well as non-8(a) disadvantaged firms (section 7(j)(1)-(9)). We have thus far awarded cooperative agreements covering 91 of the areas identified.

Of the remaining 26 areas, 9 cooperative agreements are currently being negotiated and 17 either had no bids or unresponsive bidders. In those areas, we are looking at ways to provide the necessary assistance to fill the gap.

The 1980's will be a challenging period for all small businesses. We feel we have made important strides forward in the minority business effort and look to continued progress in assisting minority firms to strengthen themselves and become viable businesses no longer needing 8(a) assistance.

While we continue to develop and refine procedures to insure equitable distribution of the 8(a) program's benefits, we encourage

and support current discussions within the administration which are designed to evaluate the effectiveness of all Government minority business efforts. Regardless of the eventual outcome, we firmly believe that the 8(a) program should continue to be administered consistent with these recent actions.

ORGANIZATION TO IMPLEMENT PUBLIC LAW 95-507

Mr. Chairman, you have also requested a progress report on our section 211 subcontracting efforts under Public Law 95-507, and I shall turn to this now. SBA has created an organization to carry out the tasks given to us by this statute and by the Office of Federal Procurement Policy (OFPP) Letters 80-2, and 80-4. The organization is directed from central office and operated through the regional offices. It is intended to be flexible with respect to fluctuating resources and workload.

At the central or headquarters level, policy direction is developed upon analyses of Federal agency subcontracting data, subcontracting goals, and comparisons of performance versus goals. SBA also analyzes reports of contractors' compliance with subcontracting requirements and reports of subcontracting plans approved by Federal contracting officers.

The policy direction and procedures developed in the central office are implemented at the regional level. The regional offices carry out a myriad of activities. Some examples:

Assist prime contractors to the Federal Government to establish company subcontracting programs; develop source lists of qualified small and small-disadvantaged business concerns; formulate subcontracting plans; assist Federal agency contracting officers to obtain subcontracting plans that provide "maximum practicable opportunity" when required on contracts awarded under the negotiated method of procurement; insure that solicitations contain notification of subcontracting requirements; determine whether subcontracting plans approved by Federal agency contracting officers provide "maximum practicable opportunity"; determine whether contractors awarded Federal contracts that exceed $10,000 performed within the U.S. and are not services personal in nature, are complying with United States policy to provide "maximum practicable opportunity"; determine whether contractors awarded Federal contracts that require the compliance with an approved subcontracting plan are actually complying with those contractual requirements; and assist small and small-disadvantaged business concerns.

FEDERAL AGENCY GOALS

In fiscal year 1981, goals for subcontracting to small business concerns were jointly established by each Federal agency and the Small Business Administration. In fiscal year 1981, the subcontracting goal was $13.8 billion, which was 45 percent of the estimated total subcontracts base of $30.8 billion. Of the $13.8 billion, $1.14 billion was for small disadvantaged business enterprises. Accomplishment by Federal agencies against the $13.8 billion goal amounted to $15.9 billion, or approximately 38 percent of the total of $42.2 billion actual subcontracting base. Small disadvantaged

business enterprise received $911 million. The statistical data on these goals have previously been submitted to your committee.

UNACCEPTABLE SUBCONTRACTING PLANS

During fiscal year 1980, SBA representatives reviewed 5,075 subcontracting pla.s for the purpose of determining acceptability. Of that number, 2,423 required improvements, which were negotiated in all but 212 plans. In fiscal year 1981, out of 5,837 plans reviewed, 2,007 required changes, which were made in all but 402 cases.

Those remaining unchanged plans, in the opinion of SBA representatives, did not provide maximum practicable opportunity for small and small-disadvantaged business concerns to participate as subcontractors in the performance of the contracts for which they were submitted.

CONTRACTORS IN NONCOMPLIANCE WITH SUBCONTRACTING PLAN REQUIREMENTS

During fiscal year 1980, SBA made 1,071 reviews of contractors compliance with the contractual requirements of subcontracting plans. Of those, 88 were determined to be in interim noncompliance and two in final noncompliance. During fiscal year 1981, SBA made 6,846 reviews of contractors compliance with the contractual requirements of subcontracting plans. Of those, 537 were determined to be in interim noncompliance and 61 in final noncompliance. In each instance, the appropriate contracting officers and corporate official were advised of our findings.

CONTRACTORS SUBCONTRACTING PROGRAM REVIEWS

Under section 8(d)(3) of the Small Business Act, a contractor's subcontracting activity under Federal contracts exceeding $10,000 and subcontracts under those contracts, is subject to review by the Federal agency awarding the contracts and by SBA. The purpose of the review is to determine contractor opportunity for small and small-disadvantaged business concerns to participate in the performance of contracts let by any Federal agency.

SBA has selected some 500 plants of major prime contractors to the Federal Government as those offering the greatest potential for subcontracting to small and small-disadvantaged business concerns. The subcontracting activities of those contractors are monitored on a regular basis for compliance with the U.S. policy stated above.

A program review of those contractors' performance is conducted on at least an annual basis, personnel resources permitting. During fiscal year 1980, SBA representatives conducted 583 such reviews, and 670 program reviews during fiscal year 1981.

While that portion of the subcontracting program that requires contractual subcontract plans has not been enthusiastically received or pursued by all segments of academia or major industry, we do feel that within the constraints of the law that progress is being made on behalf of small and small-disadvantaged business subcontracts.

Mr. Chairman, this concludes my prepared remarks. I would now be pleased to answer any questions you may have.

Mr. MITCHELL. Thank you very much. It is a very comprehensive statement that you have made and before we get into the substantive portions of your testimony I think perhaps we ought to deal with one or two issues that have gained the spotlight in the press recently.

First is the small business investment companies. I am sure you are aware of the report that appeared in the press. In that report it is alleged that under that program a $65,000 loan was made to a man who runs a Time Square pornography palace. In addition, it is indicated that some $14 million in low interest loans were made to people such as Burt Reynolds and Paul Newman, who I don't think are on food stamps as of this time.

In addition, in that report it is indicated that a minority business loan was made to Mr. Richard Nixon's nephew. I don't know anything about the genealogy of his family, but I would find it difficult to believe that he would be a bona fide minority. Have you examined any of these allegations?

Mr. SANDERS. Well, Mr. Chairman, needless to say, some of the information in the article came as quite a surprise to me. I plan to follow up on the charges made in the story. It is my understanding the loan made to the X-rated pornography house in New York in 1977 has been paid off. I think it was not paid off soon enough. As you know, these are SBIC loans, and we do not have an overview of each detail of every investment that SBIC makes. If we were staffed for that kind of an inspection, it would raise the cry of too much Government interference. However, that is not an acceptable reason at this time.

Mr. MITCHELL. Not in this case. I just think you need all the troops that you can muster with these kind of shenanigans going on. Obviously, two things happened if these allegations are true. First of all, it further blackens the image of Federal programs.

Second, it drains the funds away from those who could truly use them. It drains them away from those and gives it to people who don't need them and that is contrary to the intent of the law. Do you intend to pursue and investigate these?

Mr. SANDERS. Yes, of course. The prospect scares me, that there may be others like this out here.

Mr. MITCHELL. Have you started the investigation?

Mr. SANDERS. Mr. Chairman, we have been dealing in the last week or so largely with resources devoted to other efforts. I can candidly say to you we have not started any additional investigations other than those that our Inspector General has turned up which was part of this investigation that you refer to. The IG in our agency was the one who, developed a lot of this information and Mr. Jackson, who wrote the article, has used some of that material in his story.

Mr. MITCHELL. I think it is terribly important that you conduct your own independent investigation into these allegations as quickly as possible and report to this committee. Lord knows, all of us on the committee fight for small business and minority business, and our position becomes almost untenable when we are hit by this kind of really bad publicity.

You will?

Mr. SANDERS. Absolutely; I share your concern.

Mr. MITCHELL. Let's deal with the other problem that recently came to the attention of the press: That is Mr. Jerry Carmen, the head of the General Services Administration. Quite apart from his patronage and policies, it is my understanding that he has an outstanding loan with the Small Business Administration. Is that correct?

Mr. SANDERS. That is correct. Yes, sir.

Mr. MITCHELL. What is the current status of that loan? Are his payments up to date?

Mr. SANDERS. So far as I know, Mr. Chairman. The first I knew, of course, of this loan, was yesterday morning when I read the paper. I asked our people to check on the status of the loan. I think that the paper's account is accurate, that it is in a deferment status. A deferment status is not evidently unusual in this agency. I inquired about the procedures, and the SOP gives us the guidelines for deferment. Evidently a criteria of three is used at the discretion of the district officers involved and that, of course, again implies perhaps as much lack of uniformity as you might find between one bank and another. Nonetheless, there is a deferment procedure.

Mr. MITCHELL. There have been two deferments.

Mr. SANDERS. I do not think that is unusual. Mr. Chairman.

Mr. MITCHELL. Apparently from what I read there is no active business in our operation. Why has SBA refrained from liquidating the collateral?

Mr. SANDERS. Well, Mr. Chairman, I think that this gets into an area that we should discuss and I appreciate your suggestions. But I believe, by and large, our agency's taking, in this time of recession and hardship for a lot of people, a rather lenient point of view in repayment of loans where people are faced with the prospect of refinancing at higher interest and may be sending their businesses under. We are being lenient if we have certain criteria that are being met. One of them is the quality of the collateral. In this case there is real estate pledged as well as Mr. Carmen's personal pledge, and we feel that is sufficient to guarantee our outstanding balance.

Mr. MITCHELL. In your heart of hearts, if this were an unknown, nonpolitical, nonpowerful minority business, would you be following the same course—two deferrals and now a third one?

I am asking whether or not there is an evenhanded system within SBA. I ask it only because daily I am alerted to minority small businesses who are facing the vicissitudes of the hard times in which we find ourselves and they are being closed down by SBA. So I ask you again, in your heart of hearts would this same kind of treatment that has been accorded to Mr. Carmen, the head of the General Services Administration, be given to an unknown small minority business?

Mr. SANDERS. Well, I would certainly hope so, Mr. Chairman. As you know, I know nothing about the details of Mr. Carmen's loan. Until yesterday morning I was not even in the office when the deferrals were granted.

However, I think again I would hope to find that our administration in this kind of deferral procedure is evenhanded. That it would be applied to any small business person, which Mr. Carmen quali-

fied as, at the time that this loan was made. I would hope that it is evenhanded throughout the agency but I must say to you that guaranteeing the evenhandedness and uniformity throughout this farflung agency is not the easiest job in the world. I have no evidence that there has not been evenhandedness in making decisions on deferrals.

Mr. MITCHELL. Maybe we had better chat a little later about some of the evidence that I have which would suggest a lack of evenhandedness.

Mr. SANDERS. I would welcome that.

Mr. MITCHELL. As of March 31, I had some figures on the SBA work force. These figures are accurate and I must ask you why only 10 percent of the 5,061 employees in the program in delivery areas, only 10 percent, for example, why are there 237 employees in the Administration and in the Administrator's office, 143 in the Inspector General's office, and only 35 in management assistance, 36 in procurement, 110 employees in financing and investment?

It seems to me you are top heavy in the wrong areas. Would you comment on this?

Mr. SANDERS. You sound like you are singing my song, Mr. Chairman. If you have come to some of our board meetings, you will see that some of those same comments have been raised by me. I think you and I discussed this. I indicated that I was going to give emphasis to this and try and diminish the overhead in the central office which was nonproductive.

I have a slogan in the organization which says, "We have to put the emphasis where the rubber meets the road, and that is out there in the field dealing with small business people."

Now, as we come down to allocating our resources, you are going to see in the next 6 months more and more emphasis given to putting those resources out in the field, away from the central office. I think in the next 30 days you will see that we have redefined and designated the functions of some of those people and departments in the central office. After we do that I will be prepared to explain to you, I think, the relative importance of the departments that are in the central office.

At the present time I feel that there are some areas there that are indefensible.

Mr. MITCHELL. Well, I would be most anxious to see some progress made in the next few months. Again, it just seems to me that you open the agency up for deserved criticism when you have failures to monitor properly bank loans only because the ratio of loans to personnel is so great. You have these things highly publicized but with that many people being in central administration and in other what I call nonoperational, functional posts, it is almost damnable.

Mr. SANDERS. Well, you and I share the same point of view.

Mr. MITCHELL. When do you expect to be able to make some changes?

Mr. SANDERS. Well, Mr. Chairman, I think you also know that the Civil Service regulations don't allow you to make changes very quickly. We will go through the procedures.

I already have some that we are looking at to adopt. We do hope, of course, and I am sure you share that point of view, to try and

utilize human resources the best we can, rather than simply get into a RIF pattern. Unfortunately, some people are not trained to move from one spot to another. They have no skills.

So we are having to make some tough decisions. We will produce the kind of result that I think you and I both are looking for, and that is more effective utilization of resources.

Mr. MITCHELL. I have tremendous respect for your ability as an Administrator. I know any good administrator has always been able to handle the impediments imposed by civil service regulations. Well, again, I think you can accelerate it because you are a good Administrator.

Mr. SANDERS. Thank you, sir.

Mr. MITCHELL. I will take one more question. I am way over my 5 minutes. I am sorry.

I was disturbed to find that SBA issued on May 24 a final rule which cuts back on SBA's legislatively mandated responsibility to issue a certificate of competency. Did you receive advice from counsel as to the legality of the revised section 125(5)(d) which, under the new rule, requires referral of certification action to SBA only if the contract is $10,000 or greater? Did your counsel advise you that that was legal?

Mr. SANDERS. We did receive legal counsel on that; yes, sir.

Mr. MITCHELL. And you are still confident that this position is legal?

Mr. SANDERS. I believe that is correct, sir. If I may, I would like to refer this question in detail to Mr. McDermott who is associated with that operation.

Mr. MITCHELL. Fine.

TESTIMONY OF ROBERT F. McDERMOTT, ASSOCIATE ADMINISTRATOR FOR PROCUREMENT AND TECHNOLOGY ASSISTANCE, SBA

Mr. MCDERMOTT. Mr. Chairman, I might say prior to directly answering your question, we are in the process of withdrawing the rule.

Mr. MITCHELL. Withdrawing the rule?

Mr. MCDERMOTT. Yes, sir. We made a regulatory misstep in that we did not send it to OMB, and we are in the process of withdrawing it.

Mr. MITCHELL. That was clearly illegal.

Mr. MCDERMOTT. However, we do have a determination from our General Counsel that the statute does permit SBA to have that exercise of an option as far as a certificate of competency is concerned.

Mr. MITCHELL. Would you share with this committee a copy of counsel's opinion on this matter?

Mr. MCDERMOTT. Yes, sir.

Mr. MITCHELL. Do you have it with you today?

Mr. MCDERMOTT. Yes, sir.

Mr. MITCHELL. We would like to make some copies.

I have gone way over my 5-minute time limitation.

Mr. Hiler.

Mr. HILER. Thank you, Mr. Chairman.

Mr. Sanders, you came in as Administrator when?

Mr. SANDERS. March 29, 1982 is when I was confirmed.

Mr. HILER. And you were Acting Administrator?

Mr. SANDERS. Well, no, Deputy Don Templeman had been Acting Administrator.

Mr. HILER. In the 2½ or 3 months that you have been Administrator, did you feel that you were getting a handle on some of the SBA problems such as the chairman has mentioned this morning?

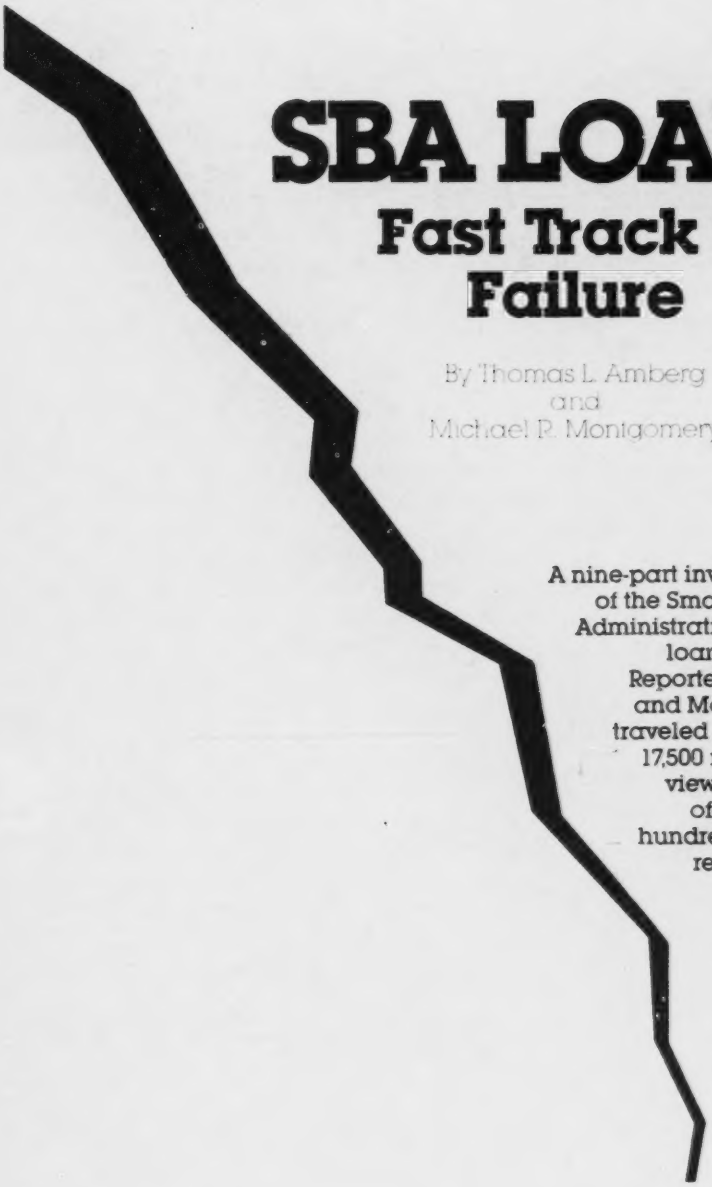
Mr. SANDERS. Yes, Congressman. I think that we made some great progress in communication with the regional managers and district directors of the Agency. We just finished a 3-day session for the first time in a year and a half in which all the district directors came together to realine our goals and to try to accomplish something of substance.

So I am enthused about the kind of support we are getting from the professionals in our Agency.

Mr. HILER. One of the things that the chairman has mentioned, one that I think disturbs a great number of us, is that it appears the Agency is a little bit top heavy, and I think the chairman said 36 people in the management assistance area. I think that because the SBA has not had an excellent record in its loans and loan portfolio and particularly in the direct loan area, and because we have not had excellent oversight on SBIC's—for which, this year, we increased the funding substantially, and I wish I had this information before I cast that vote—a lot of us have become concerned that we are not getting the management assistance out there. We are not monitoring the loans. We are having substantial default rates, and the direct loan program—if the articles in the St. Louis paper back in September had any element of truth to them—is a disaster.

[The articles referred to above follow:]

St. Louis Globe-Democrat Aug. 31-Sept. 9, 1981



SBA LOANS:
Fast Track to Failure

By Thomas L. Amberg
and
Michael R. Montgomery

A nine-part investigation of the Small Business Administration's direct loan program. Reporters Amberg and Montgomery traveled more than 17,500 miles interviewing 80 SBA officials and hundreds of loan recipients in 15 states.

Millions lost in SBA loans

42 percent of borrowers end up in default and out of business

By THOMAS L. AMBERG
and MICHAEL R. MONTGOMERY
Globe-Democrat Staff Writers

(First of a series)

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More than $571 million in taxpayers' dollars has been lost as more than two of every five loans have ended in default in the federal government's primary program to help the underprivileged enter the mainstream of American business.

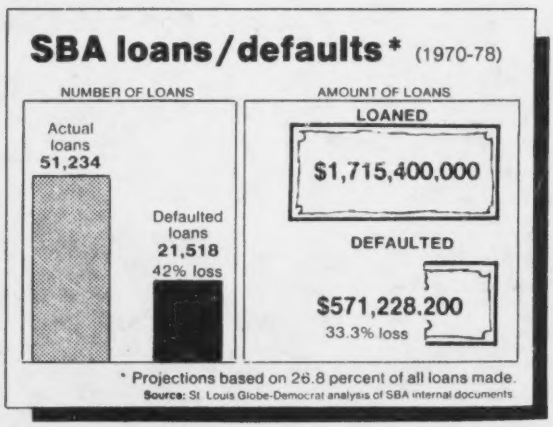
Rather than help the disadvantaged, as the progrm was designed to do, recipients often become its victims. The program often ends up putting people out of work, draining life savings and leaving a trail of closed shops and broke lives, hundreds of interviews have revealed.

The high failure rate results in part from a pattern of making significantly smaller loans to borrowers in minority urban areas than elsewhere and a history of giving loans to totally unqualified people.

AFTER A long, intensive nationwide investigation, The Globe-Democrat found that lax policies and sloppy procedures in the Small Business Administration's direct business loan program from 1970 through 1978 have cost the federal Treasury $571,228,200 — a figure that could reach $900 million if losses in 1979 are consistent with previous years.

Across the country, many SBA officials interviewed said the program should either be scrapped or completely overhauled. The officials interviewed agreed the program has serious problems.

Loan recipients whose businesses failed were more outspoken. "I wish they'd never lent me the money; I'd have been better off," said one man. His comment was repeated time and time again by other borrowers across the nation.



"It's as if the money were soap and we're supposed to peddle it," said Bernard Lump, chief liquidation officer in the SBA's San Francisco district office. "It's not just a feeling I have; it's a fact. There is no respect for money in this agency. I'm appalled at this stuff. We're not helping these people."

THAT FEELING was echoed by Clyde Cromwell, an official in the Dallas district office. "I've gone back to a loan officer on occasion and said, 'What in heaven's name are you doing making this loan?' and he's said, 'Got to get the money out, man. You get no brownie points for declining a loan."

Added Denver District Director Chester B. Leedom, "We don't do a man any favors by putting him in business with an artificially low interest rate and without proper managment ability."

In fact, the actual default rate within the program is masked by a widespread policy of granting deferments to loan recipients who have missed payments, artificially understating the losses. The purpose in granting the deferments is often to make a loan officer or district field office "look good," SBA insiders said. Lump, who has served in SBA offices in New York, Los Angeles and now San Francisco, said, "I would say that, at any time, 10 to 25 percent of the direct loan portfolio would be in deferment status, which means we just stopped collecting money on those loans."

LUMP EXPLAINED that by deferring loan payments, loan officers are able to transfer the loan from delinquent status to a "current" status, thus making their portfolio appear to contain a greater percentage of good loans. That can mean more money and faster promotions for the loan officers because the agency has had an incentive program targeted largely on such things as high percentages of current loans, he said.

"I was part of the 'we' that did it," Lump declared. "I know. We were the No. 1 office in New York, and when I was in LA it was the same, but it was all a charade. It's just a way to hide the actual default and delinquency rates. People do it to protect themselves and get ahead."

When The Globe-Democrat informed SBA Administrator Michael Cardenas that it had

found a 42 percent default rate, Cardenas expressed no surprised, admitting that the program has been poorly handled for years. He said he intends to change the direction of the program but offered no specifics.

Asked what he felt was an ideal or reasonable default rate, he replied, "I'd like to see it no higher than 10 percnt."

THE DIRECT loan program, set up in 1953, was expanded in 1964 and again in 1969 as a response to urban riots in the late 1960s. While there are several types of direct loans, the overall purpose is to enable marginally qualified borrowers to enter the free enterprise system by owning and operating their own businesses. The threshold requirement for receiving an SBA direct loan is to be turned down for the loan by at least two banks and not to qualify for even a 90-percent SBA-guaranteed loan.

The SBA generally requires a person (there is is no formal policy) to put into the business whatever private money he has. The program is intended for anyone going into or expanding a business who is unable to obtain the money from conventional lending sources.

The Globe-Democrat investigation, which invovled two years of litigation by the newspaper under the Freedom of Information Act, entailed the examination of more than 14,000 loans, thousands of other documents, hundreds of interviews and a computer-assisted study of loans and default records. It was based on an analysis of nine years of direct loans made in 16 SBA offices.

Analysis of the SBA loan data was accomplished by utilizing the specialized computer system and consultation services of Comshare Inc., an international computer services firm.

Among the findings:

● Of the 14,261 SBA loans made in the 16 district offices from 1970 through 1978, 5,948 — or 42 percent — have ended in default.

● In terms of actual dollars lost, $157,535,380 — or 33.3 percent of the $473,079,234 loaned during the period in the 16 offices — was never repaid.

● SBA attempts to collect on collateral or force payment from loan recipients through the courts are minimal at best, with the agency collecting about 18 cents on the dollar once a loan has been placed in liquidation, the first step in writing off the loan.

● Loans have been concentrated in small geographical areas marked by high unemployment and economic depression, yet within those areas the size of the loans made was sgnificantly less than average overall. That pattern of relative undercapitalization gives weight to charges by dozens of minority loan recipients who told reporters they felt that heavily black areas were being given many of the loans to show "commitment" to the area, but that the loans were too small to allow a business to survive.

● The SBA has consistenly understated its loss rate, never admitting in any year between 1970-78 more than a 10.8 percent loss rate to Congress. Congress' watchdog, the General Accounting Office, has accepted as true and repeated with virtually no serious investigation the misleading loss rates.

● SBA officials repeatedly increased the risk by making loans to people unqualified to run the type of business for which they have received the loan. Examples found by reporters include a barber who received a loan for a grocery store, a potato chip salesman who received a loan to run a liquor store, a clothing store salesman who received a loan to run a restaurant and a karate instructor who received a loan to set up an Oriental food store.

● There has been a substantial hardship for those who received loans but soon discovered they were in well over their heads. Not only were life savings often lost as would-be entrepreneurs tried to keep their businesses afloat, but in a number of cases, reporters found people whose family life have been thrown into confusion and disarray due to the strain of debts, bankruptcy or loss of credit.

● SBA officials failed to follow their own

The story behind the Small Business Administration series

Billions of dollars have been spent through the Small Business Administration's direct loan program since 1953, but the agency refused Globe-Democrat requests for information on how many of those loans defaulted, leaving taxpayers holding the bag.

Concluding that the public's need for a meaningful evaluation of the program was not possible given the SBA's refusal to provide default information, The Globe-Democrat filed suit in 1979 under the federal Freedom of Information Act.

The newspaper eventually prevailed, and the first detailed data on SBA stewardship of taxpayer money was turned over to Globe-Democrat reporters Thomas L. Amberg and Michael R. Montgomery in June and July of this year.

More than 18,500 records — reflecting 26.8 percent of the SBA loans made nationwide from 1970 through 1978 — were statistically analyzed with the assistance of Michael Jones of Comshare Inc., an international computer analysis and consulting firm.

The records obtained from the SBA contained raw data with regard to the loans, and The Globe-Democrat was able to analyze the data down to types of businesses within individual ZIP codes throughout the country, average loan sizes, disparities in loan amounts between areas, and many other calculations. A number of sophisticated analytical techniques were applied to the records to obtain a detailed breakdown of the entire program.

Amberg and Montgomery then traveled more than 17,500 miles, interviewing more than 80 SBA officials and hundreds of loan recipients in 15 states to get a complete picture of the direct loan program.

Amberg, a prize-winning investigative reporter who has worked for The Globe-Democrat for 10 years, has a bachelor's degree in political science and earned a master's degree in business administration while working for the newspaper. Montgomery, who has a bachelor of science degree in administration, has reported extensively on local affairs.

standard operating procedures – in making and monitoring loans and minimizing losses stemming from defaults — "is a push to get the money on the streets."

The high volume of loans and low rate of success within minority communities are exactly what the agency's regulations say should not happen. "From a socioeconomic viewpoint, the indiscriminate approval of loans at a high volume and low rate of success can do nothing but impair our relationship with the small business concerns and communities that we are attempting to help," the SBA's own procedures manual says.

Elsewhere in the manual, another major point is stressed: "Many loans are in liquidation solely because working capital requirements were not given adequate consideration."

SO DISORGANIZED and troublesome is the program, in fact, that 11 of 16 districts and branch-directors interviewed in the 16 offices said privately that the entire program should be either scrapped or significantly overhauled.

"If we got a telegram tomorrow from Washington saying the direct loan program was being stopped, everyone in this office would stand up and cheer," said one Western district director.

Because of the large and representative sample size — the 14,261 loans examined are 26.8 percent of the loans made by the SBA through 1970 through 1978 — the figures can be translated with statistical accuracy to reflect the national loss rate during the period, according to statiscal experts.

In terms of dollars lost, the SBA default rate for the direct loan program is 33.3 percent, which means an actual loss of more than $571 million from 1970 through 1978. In terms of numbers of loans, the default rate is 42 percent.

Later years were not included in the study because there has been insufficient time for the businesses to show a pattern of either success or failure.

Loose practices lead to SBA's high failure rate

Loans often made to businesses sight unseen

By THOMAS L. AMBERG and MICHAEL R. MONTGOMERY Globe-Democrat Staff Writers

(Second of a series)

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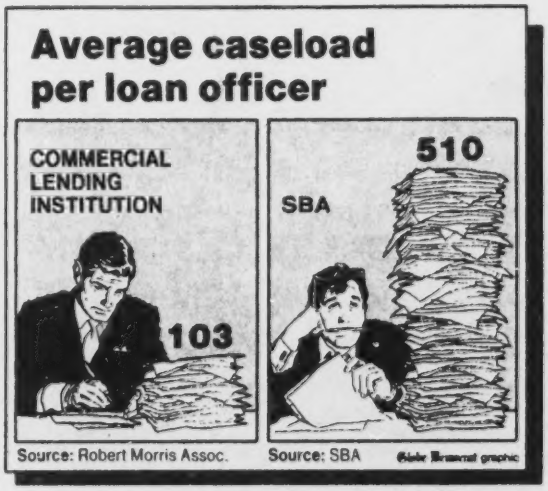
Through its loose lending practices and servicing procedures, the Small Business Administration virtually assures that its direct business loan program will have a staggering default rate, said dozens of field officials throughout the nation interviewed by The Globe-Democrat.

"It's not hard to see why there's such a horrendous failure rate for these businesses. It starts with a mentality that has no respect for the money it deals with," one official said.

That official, San Francisco chief of liquidation Bernard Lump, recalled instructions given him by a former chief of finance in the New York City office. "He said, 'Don't look at it as money. Look at it as numbers on a computer run. We call them loans, but they're really just grants.'"

Asked why the default rate is as high as it is — 42 percent of the direct loans made from 1970 through 1978 failed — and what can be done about it, SBA field officers who were interviewed raised these major points:



● There is insufficient screening of applicants. "We lend money to whatever walks in the door," Lump said. "We should try to target our money to certain industries the way banks do."

Thomas Trimboli, district director in Phoenix, Ariz., said, "I'd like to see a more creative use of our direct loan money. Why not take most of the money and target it to the types of businesses that the state or city or area needs to ensure that it generates economic development?"

Such targeting is not possible because the agency's rules require taking loan applicants in chronological order on a 'first-come—first-served basis, Trimboli said.

Loan recipients' lack of business experience is cited as "the greatest single reason" for loan failure by most SBA

personnel interviewed.

● Loans are made routinely without the loan officer or other SBA personnel even seeing the applicants' proposed or present place of business.

"Field visits are a MUST," Buffalo, N.Y., Branch Director Franklin J. Sciortino said. "You can't make a rational decision on a loan without a field visit. A picture's worth a thousand words, as the saying goes, and it's just amazing how much you can tell about a business in just a five-minute visit."

And yet, in every other office visited by reporters, officials conceded that field visits were not always made, and, in many cases, rarely made, because of a lack of personnel.

SBA's internal regulations require that field visits be made in all cases of direct loans to start a new business unless specifically waived by a loan officer's superior. The shortage of personnel to handle the crush of applicants — waiting lists extend up to 2½ years — makes waivers the rule and field visits the exception.

● SBA has for years marched out of step with the rest of the financial world. Its loans are made throughout the year regardless of financial conditions. "Lending is a cyclical business, and we should treat it that way," said Lump, of the San Francisco SBA office.

"When interest rates are high, we should be putting people into servicing loans, not making them, and when interest rates are low, the reverse should be true.

"But what happens is that SBA acts oblivious to the wishes of the Federal Reserve. When the Fed is trying to get banks and lending institutions to cut down on lending, the old SBA is right out there pumping more loans into its $15 billion portfolio. It doesn't make the least shred of sense," he said.

● A major problem raised by several SBA field officials is the lack of specific requirements for the borrower to put his own money into the business. Although the SBA policy manual states that an "applicant must have a reasonable amount at stake in the business," there is no specific figure for private investment. The lack of a specific requirement for private equity by the applicant gives him little incentive to keep the business solvent, field officials said.

The chief financial officer in the Newark, N.J., district office advocated returning to the dollar-for-dollar matching concept used by the agency until the mid-1960s.

"You'd eliminate the type of situation where a couple of guys stand on a street corner one night and decide to go into business," he said.

Charles R. Hertzberg, director of the SBA's Office of Business Loans in the central office in Washington, said, "There was a weakening of the 7(a) loans (the major part of the direct loan program) to coincide with the EOLs (Economic Opportunity Loans, which are intended to help minorities and have never required a certain amount of private equity from the applicant.)"

● A sample of 534 loan files from 16 selected SBA offices showed that 33 percent of the loans were made in part or in whole to pay off amounts owed by the businesses to private or public creditors and to pay local, state or federal taxes.

In those cases, an average of 46.4 percent of the loan was used to pay creditors. Many times, the entire loan was used, with SBA approval, to pay off a series of private creditors.

In one case, for instance, the Dallas district office loaned $100,000 to a business that had failed six months previously. The loan went entirely to satisfy accounts payable, notes payable and a bank. The business (the Canton & Edgewood Concrete Co.) subsequently went out of business for a second and last time 3½ years later, with SBA losing about $55,000.

SBA regulations, however, dictate that loan proceeds may not be used to "bail out" any "creditors who are in a position to sustain a loss."

● From the same sample of 534 loans, The Globe-Democrat found 52, or 9.7 percent, that went in part to pay off other SBA direct loans. By doing so, the agency understated the actual number of defaulted loans.

Once a loan is approved, eventual failure and loss to SBA is often assured through policies that, in general, fail to protect the loan, investigation showed.

Those policies — or sometimes lack of policies — include:

● A shortage of personnel to service loans. Servicing personnel are theoretically supposed to handle a host of administrative problems, such as any changes in accounts, as well as be available to make calls on businesses in need of special help and attention.

Because the direct loan program is by its nature made up of higher-risk individuals, those businesses generally require substantial attention. However, the average caseload in the 16 offices surveyed by Globe-Democrat reporters is 510 loan recipients per loan officier.

In contrast, loan servicing officers at commercial lending institutions generally have a caseload of 10 to 100 cases, according to banking officials.

A recent study by Robert Morris Associates, the national association of bank loan and credit officers, found the majority of loan officers at commercial institutions handled no more than 99 loans. The average caseload was 163 loans per officer, according to the study.

Phoenix District Director Thomas Trimboli, discussing the high caseload, said, "The servicing people are not engaged in preventive management assistance; they're engaged in reactive management assistance."

Trimboli and other SBA field personnel complained that the lack of staffing makes it impossible for a servicing officer to do anything other than react to a crisis, not prevent one.

"Once the thing is failing, there's really nothing a government person or banker can do for it," said Lump, of the San Francisco office. "The bad decision was made in making the loan in the first place.

"Putting many of these people into business in the first place is like putting them in the ring with Muhammad Ali. Once they start to take a beating, there's not much we could do if we crawl in the ring with them," he said.

Another SBA official said, "It's pretty unrealistic to think a servicing officer can provide much real help when he has hundreds of firms to deal with."

● SBA fails to protect its collateral position in many cases. When a loan is made, the agency accepts certain collateral that is supposed to secure the loan. Often, the agency will later take a second position on the same collateral, thus allowing a commercial lender that comes along later to have first rights to the residence or business property and giving SBA whatever, if anything, is left over from a sale of that property.

"We don't protect our position," Lump said. "It's common. A guy starts going bad and wants more money, and if the agency won't give it to him, he goes out and gets it from a trust deed company. That company usually charges interest at prime (rate) plus five points, plus another 10 to 24 points (a point is 1 percent of the loan amount) on top of that for what's called loan origination fees.

"To make the loan, SBA has to agree to subordinate its position, and we do it as a matter of course. Absolutely. We do about two a day in San Francisco, and twice that in Los Angeles. It's rampant all over the country," Lump said.

Subordinating the loan position means that when the trust deed company forecloses (which almost always happens, according to Lump), SBA is left with no collateral return. "Millions go down the drain in that way," Lump said.

How SBA loan cooked up restaurant failure

By THOMAS L. AMBERG
and MICHAEL R. MONTGOMERY
Globe-Democrat Staff Writers

(Third of a series)

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Merrill L. Moss, a self-described amateur cook with no experience in operating a restaurant, opened a posh eating establishment in St. Louis with $150,000 of taxpayers' money and flopped less than six months later.

With all but $5,996 lost, Moss closed the gourmet dining establishment at Fourth and Olive streets called Chez Jean Pierre, which had offered main meals from Coquelet Albufera at $15 to Carre d'Agneau en Croute, the house specialty, for $37.

Moss told The Globe-Democrat that from the beginning in 1978 he had no experience in the business "whatsoever" to back up his "glamorous" venture.

"YOU AND ALL other taxpayers paid for my failure," he said.

Moss' experience is one example of how the Small Business Administration — through poor procedures for making loans, monitoring them, and minimizing taxpayer losses when default occurs — has lost one-third of the $2 billion it spent during the decade ending in 1979, a Globe-Democrat investigation has revealed.

The performance record of the St. Louis SBA office serving eastern Missouri is one of the worst in the nation, reflecting the failures of a program whose cost is much greater than the hundreds of millions of dollars lost through defaults, The Globe-Democrat investigation showed.

A rush to "get the money on the street," as one SBA official described it, has resulted in St. Louis officials making loans almost haphazardly to people who, by their own admission, were totally unqualified and inexperienced to run the businesses being financed at taxpayers' expense. As a result, almost six of every 10 loans of the 1,041 loans made here from 1970 through 1978 have ended in default.

Although the SBA's policy and procedures manual stresses that the management ability of the prospective borrower is a prime factor in considering an application, SBA officials have often given loans to people who were making major career changes without benefit of prior experience.

And, in many cases, the businesses were so short-lived or did so poorly that because of accruing interest and lack of payments, the SBA is owed more money than it loaned.

The loan failure rate here not only raises questions about the qualifications of the borrowers but the qualifications and procedures of SBA personnel as well.

The ill-fated venture of Chez Jean Pierre is one of many examples.

● On May 15, 1978, the SBA approved the $150,000 loan to Moss to set up Chez Jean Pierre — despite the fact that, as Moss said, "I had no experience whatsoever. Nothing. I'm an amateur cook, and it seemed like a sort of glamorous concept."

A former advertising writer, Moss recalled the whole venture as a nightmare, with the bottom line being that he opened in November 1978 and closed less than six months later on May 1, 1979.

With SBA's blessing, he said, he had selected a "terrible location," had accepted a financing proposal that left him woefully short on working capital and got into a business he knew nothing about.

The cost to the SBA, and ultimately the taxpayers, was $144,004 in principal and interest that the SBA has had to charge off. Moss filed for bankruptcy, and the debts were discharged by court order.

Today, living in Bainbridge Island, Wash., Moss said, "They would have done me a huge favor if they had turned down my loan and told me to go get some experience before I try it on my own."

Examples of SBA failures — in which 33.3 percent of the $2 billion spent on the program from 1970-78 ended in default — are legion.

● From February 1970 to April 1971, the SBA here made three loans — the first for $10,000, the next for $25,000 and the third for $65,000 — to Luther Boykins, a barber, to open Luther's Market, a grocery store at 4135 Shreve Ave. Six months after the final $65,000 loan, the grocery shut down, Boykins went back to being a barber, and the SBA was left with $79,183 still owed in principal and interest. That amount was subsequently charged off.

Boykins said he is bitter that the SBA even gave him the loan in the first place, because besides losing his life savings, he incurred a debt he said he will never be able to pay off.

"I was going to be a failure no matter what," he said. "The combination of a lack of experience and a lack of working capital doomed me."

The SBA did not inspect the stock or equipment, provided no advice on taxes, management or bookkeeping and offered no aid from SCORE (Service Corps of Retired Executives) volunteers, he complained.

He maintained that the SBA's direct loan program amounts to no more than "pacifying and satisfying" the black population, and is, in fact, "designed for black people to fail" because it sets them up in business without the proper experience or enough financing.

● When William J. Herbster applied for an $8,000 SBA loan on May 2, 1972, he was a potato chip salesman on a truck route. Nine days later, when his loan was approved, he was the new owner of the Driveway Liquor store at 4114 Jennings Road, Jennings. Five months later, he was out of business, leaving the SBA with $8,463 in principal and interest to charge off as another bad debt.

Herbster remembered that he "went down to see the man at SBA (to ask for a loan), and it was all real quick. They gave me the money right away," despite, he said, his lack of experience.

● In another case, M.C. Skinner, with a background of 20 years in retail clothing sales, was given $32,400 in loans to turn a deserted gas station on the city's North Side into a diner.

Although SBA officials suggested Skinner might look into the idea of his own clothing shop, he insisted it was "a dying business," he said, and remained set on the idea of his own diner.

Skinner received a $29,400 loan from the SBA in December 1978 and another $3,000 loan in September 1979.

After 14 months of delays, occasioned in part by misinformation from SBA officials, Skinner said, he finally opened his restaurant at 2914 Parnell Ave. in February 1980. But the business went bust in September 1980, leaving Skinner with no diner, no credit rating and the loss of at least $2,500 of his own money.

The SBA, and taxpayers, were out a total of $34,566 in principal and interest.

● One West End restaurant at 5897 Delmar Blvd. with the catchy name of Tak-It-An-Gitt received a loan in 1971 for $10,500. Today, the SBA has long since written off the loan, with Tak-It-An-Gitt still owing $10,471.88 in principal and interest. The interest stopped accruing in 1976 when the loan was written off. Globe-Democrat efforts to reach the owners were unsuccessful.

● When auto mechanic Franklin Williams "was looking around for something to do" in Philadelphia in 1971, he and his cousin, Dillard Mosley, a salesman for Sears Roebuck and Co., thought opening a hardware store would be a good idea. He told The Globe-Democrat that he and his cousin put together some projections ("we didn't exactly know what we were doing") and presented them to the SBA.

SBA thought the idea was a good one, and without changing anything in the

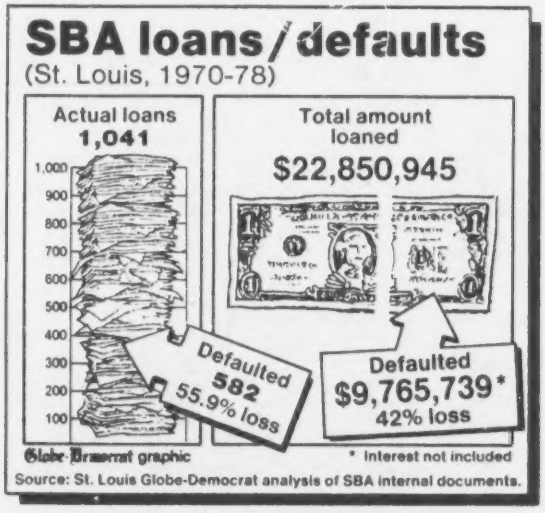
projections, gave Williams $50,000 to buy Feldman's Hardware Store.

"The projections were way, way off," Williams said. "We knew we were in trouble within a year. The store lasted 3½ years." He said he is again working as a truck mechanic and his cousin is "somewhere out West."

● Ye Mo Ahn was a karate teacher in 1975 when she decided that "the karate wasn't going so good." Some friends told her that they thought "an Oriental food store would go good, so I tried it." With no managerial experience, she could only keep the store afloat 1½ years on the $30,000 SBA loan before "too much competition" killed the business," she said.

Similar versions of one phrase — "getting the money on the street" — cropped up again and again in Globe-Democrat interviews with SBA officials in 16 offices nationwide.

The phrase represents what many — including SBA officials — regard as a bureaucratic distortion of the program's original intent of helping individual entrepeneurs become successful businessmen, but has come to be viewed in terms of how many billions of taxpayers' dollars have been doled out.



Defaults here among highest

The St. Louis Small Business Administration's office has one of the highest default rates in the country in its direct loans to aspiring businessmen.

From 1970 through 1978, the local office made 1,041 loans, and 582 — or 55.9 percent — ended in default and out of business.

Of the 16 SBA offices selected in The Globe-Democrat's investigation of the agency's direct loan program, only Cleveland had a higher default rate — 56.46 percent of the 859 direct loans made during the same period ended in default.

In St. Louis, the direct loans during the same period totaled $22,850,945. More than 52 percent of that amount went to the 582 firms that ended in default and out of business. Subsequently, the SBA, and taxpayers, took a loss on 82 percent of the money loaned to those firms. A total of $9,765,739 was charged off as a loss by the SBA here, and another $561,711 in interest owed on the loans was also written off as a loss.

The Globe-Democrat investigation chose the years 1970 through 1978 because of the high volume of loans and dollars in the program during that period. Most of the SBA loans are for a 10-year period.

For the period chosen, business failure rates were high for the first few years and then declined in the more current years. The default rate here reached 69 percent in 1971; more recently it has been as low as 26 percent. The rate declines in more recent years not because SBA policies or procedures have improved, but because the businesses have not been in the program long enough to determine their ultimate success or failure.

The failure rate in St. Louis by year is: 1970, 56 percent; 1971, 69 percent; 1972, 68 percent; 1973, 65 percent; 1974, 48 percent; 1975, 51 percent; 1976, 38 percent; 1977, 41 percent; and 1978, 26 percent.

Analysis of the SBA loan data for the 16 SBA offices was accomplished by using the specialized computer systems and consultation services of Comshare Inc., an international computer services firm.

Tales of ruined businesses — and lives

By THOMAS L. AMBERG
and MICHAEL R. MONTGOMERY
Globe-Democrat Staff Writers

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(Fourth of a series)

"I can't tell you how it would have helped my life so much if they had never given me the damn money. All it did was ruin my life."

The price of failure was high for Elizabeth Taylor, who started a midtown St. Louis restaurant with a Small Business Administration loan and then watched it close.

An SBA-commissioned consultant had advised against the loan, citing a poor location, insufficient capital and her lack of business experience in concluding that the venture would be "perilous."

A TOP OFFICIAL at the SBA office here agreed, saying the $86,900 loan was "not adequate."

But less than three weeks later, the SBA granted Mrs. Taylor a loan for $36,700 — less than half the original request. A bailout loan of $32,000 followed the next year in 1975, but the money was not enough — Mrs. Taylor closed her business last year.

She now lives on a small medical disability payment and food stamps.

Mrs. Taylor is one example of the failures of the SBA's direct loan program, in which tax money — an estimated $571 million was lost to defaulted loans from 1970-78 — is not the only cost, and taxpayers are not the only victims.

People who applied for loans came to the SBA office here with ideas that represented their lives' ambitions — a chance to run their own businesses, to be independent, to stand on their own feet and to be their own bosses.

BUT IN MANY cases, often when SBA officials did not even follow their own rules and regulations, people who were successful in obtaining the loans not only lost their businesses, but their life savings, their homes and their credit ratings. In one case, a man even lost his family.

When Willie Smith walked into the St. Louis SBA office to apply for a loan to run a small grocery store, he was justly proud of himself. He was, he said proudly, one of the first blacks to be hired as a meatcutter by a St. Louis grocery chain, and he had worked steadily at the trade for 12 years, adequately supporting his wife and four children. Now he was ready to go to work for himself, running a meat and grocery store.

But at the SBA, no one seemed to know anything about setting up a grocery, and the $28,000 loan he received proved totally inadequate, he said.

"BY THE TIME we bought stock and paid regular monthly bills, there was nothing left to operate on. We (Smith and a partner) had chosen a bad location, but we didn't know any better. We did about $3,500 in sales each week, but a feasibility study done a year after we opened said we'd have to pull in $15,000 a week in sales to survive. We never got over $5,000," he said.

Smith's operation, the Specialty Meat Co. at 4261 Maffitt Ave., soon raced downhill. A move to a second location, 1424 Dielman Road, Overland, proved no more successful because of the lack of adequate working capital, he said.

"We were always in debt, never able to restock properly and always living hand to mouth," he said. "There was never money to make any payments to the SBA."

"It's the blind leading the blind," Smith said bitterly. "If they (SBA officials) don't know any more than I do, they're not much help. It's nice they gave me the loan, but it's no help if they can't help me succeed."

Smith's business went further and further into the red, despite Smith's working more and more hours. Debts and frustrations began to take their toll in pressure on the family, he said.

"MY WIFE couldn't take the pressure of the debts, and we ended up separating. The whole thing created a lot of hardship for the family. It really tore us up," he added.

Smith's business, started in late 1974, folded in mid-1976. Smith now does "odd jobs" and cuts meat when extra help is needed. He said he takes most of his pay in groceries and then takes them to his estranged wife and children.

"I tried to get a loan to do better in my life, but I got a loan and ended up a lot worse. I guess I've learned a lot," he said.

The price also was high for Mrs. Taylor, a St. Louisan who for years before receiving an direct loan had run a small but successful catering business out of her North Side home.

"When I applied for that first loan in 1974, my world was going pretty good. I had about $35,000 of my own money, a home with a mortgage that I had paid down from $21,000 to $9,000, a car and good health," she said.

"But afterward, after getting the loan and all that followed, I had lost my money, my home, my business and my health. The emotional strain of fighting through this horrible thing has just torn my family apart emotionally. My oldest son got so upset over the business failure that he had a breakdown," she said.

"I can't tell you how it would have helped my life so much if they had never given me the damn money. All it did was ruin my life," she said.

IN FACT, THE SBA turned down Mrs. Taylor's original request for an $86,900 loan, in part based on the findings of a feasibility study commissioned by the SBA to look into Mrs. Taylor's idea of a restaurant and catering service at 3536 Washington Ave.

That study, obtained by The Globe-Democrat, stated, "This total concept appears unrealistic for this area of St. Louis at the present time due to the fact that it is a transitional area and the fact that Mrs. Elizabeth Taylor has little management and business experience for such a large operation."

The report called Mrs. Taylor's proposed venture "perilous" and "high risk" because of the location and her lack of business experience.

And, in declining her request for $86,900, S.C. Slaughter, then chief of SBA's financing division, wrote that the loan could not be approved because, "Working capital of $23,900 after the loan is not adequate to sustain the operation during its development stages."

So what did the SBA do for Mrs. Taylor? Less than three weeks after Slaughter's letter, Mrs. Taylor received a loan for $36,700 for essentially the same operation she envisioned in the $86,900 loan. The $36,700 loan left Mrs. Taylor with only $3,700 for working capital, according to SBA records.

A SECOND loan the next year for $32,000 ended up being used largely to bail Mrs. Taylor out of debts rapidly incurred from the small capitalization in the first loan, records show. The loans were put in liquidation status within two years after they were made, and the business sputtered along for five years before closing in August 1980.

In fact, even though the loans went into liquidation on May 25, 1976, the SBA made no attempt to collect on its loss. The loans were officially charged off on Feb. 23, 1978, records show, again with SBA making no attempt to collect anything. For more than two years after being "charged off" SBA continued to ignore the debt.

By the time the agency finally moved to collect anything on its loan, the business had little left of value, and SBA collected absolutely nothing from the sale of business chattels, giving the sum to the actioneers instead.

In the case of Lionel E. Lefler, an American Indian who wanted to open a health club, it was a similar story.

LEFLER HAD been and still is a high school physical education teacher. He

Globe-Democrat Photo by John Dengler

Willie Smith, one of the first blacks to be hired as a meatcutter by a St. Louis grocery chain, works at a confectionery at 3701 Cook. "I tried to get a loan to do better in my life, but I got a loan and ended up a lot worse. I guess I've learned a lot," he said.

thought he would have no trouble running a health club in the Oakville Shopping Center in South St. Louis County.

Once he got his $61,000 loan, he had no problems with the SBA and very little contact with the agency, either, he added.

But problems began even before the club opened, Lefler said, when the landlord of the shopping center placed the club in the rear of the complex, not in the front as Lefler had been led to believe.

"It was a poor location, but I didn't realize how bad it was at the time. Maybe if the SBA had given me some management training, I might not have let this happen," he said.

But, Lefler said, he was offered no such courses or help despite the SBA mandates that all borrowers without management experience, such as Lefler, receive management assistance training.

In fact, Lefler said, he wanted to wait until he could get a better location because his application for the loan had been predicated in part on a choice site for the club. But because the loan had already been approved he said, an SBA official told him not to wait but to take the money and work with the less desirable location.

LEFLER'S HEALTH club opened in early 1978 and lasted a little less than three years. During that time, he received only one visit from SBA officials — "and they were in an obvious hurry to leave," he said.

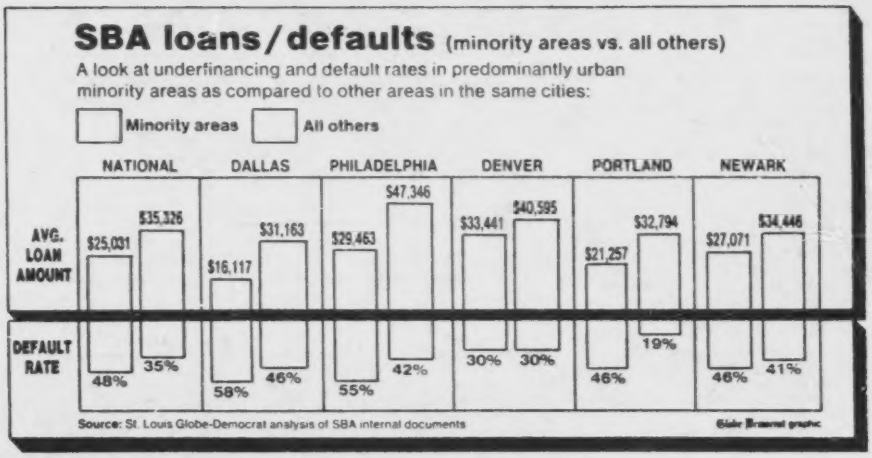
Although Lefler twice requested and received a moratorium on his loan payments, no SBA official contacted him about his business problems.

He said he once called the Service Corps of Retired Executives, a group of retired businessmen that offers management help to SBA borrowers, but was told no one there knew the physical fitness business and "then they told me to call back in a few months if things didn't get better."

When the business folded in 1980, the SBA had put in a total of $63,000 and Lefler had lost $20,000 of his own money, including a house he had owned.

When he thinks back on the venture, Lefler is not bitter and he does not put all the blame on the SBA. Nonetheless, he would change the past if he could.

"I'd have been a lot better off financially if they'd have told me no — hell no."



Deck stacked against minority areas

By THOMAS L. AMBERG
and MICHAEL R. MONTGOMERY
Globe-Democrat Staff Writers

(Fifth of a series)

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The Small Business Administration has given smaller loans to borrowers in depressed minority areas than to aspiring businessmen in surrounding regions, stacking the deck against the survival of enterprises in the minority areas, a nationwide Globe-Democrat investigation shows.

Businesses in predominantly non-minority areas are given loans averaging 41.1 percent more than businesses in depressed, minority areas under the Small Business Administration's direct loan program.

And yet minority businessmen argue their needs are at least as great as their white counterparts' because of higher insurance costs, higher security costs and renovation and leasehold improvement costs.

THE PATTERN OF granting smaller loans makes economic survival more difficult for the type of businesses that the SBA's multibillion-dollar direct loan program is designed to foster, the investigation shows.

The smaller loans to minority businesses correspond closely with the higher default rate in minority areas. The Globe-Democrat's investigation revealed that 48 percent of all direct loans in minority areas fail, compared with only 35 percent of the direct loans in predominantly white areas.

The underfinancing in minority areas was disclosed by a computer analysis of 14,261 loans representing 26.8 percent of the more than 51,000 direct loans granted nationwide from 1970 through 1978. Estimates of nationwide performance were based on that sample, representing all defaults in 16 cities in that period.

IN ANALYZING the data, The Globe-Democrat used the specialized computer systems and consultation services of Comshare Inc., an international computer services firm.

In analyzing disparities between minority and non-minority areas, loans were grouped by ZIP code. ZIP codes representing predominantly minority areas were identified through interviews with law enforcement, newspaper and SBA employees in 16 cities.

The average loan amount nationally in predominantly black or Hispanic areas was $25,031 — but the average in all other areas was $35,324. The difference of $10,293 represents a 41.1 percent disparity.

The Globe-Democrat examined the direct loans made from 1970 through 1978 in 16 district offices throughout the country: St. Louis; Phoenix, Ariz.; Detroit; San Francisco; Portland, Ore.; Atlanta; Miami; Minneapolis; Dallas; Cleveland; Philadelphia; Buffalo, N.Y.; Denver; Newark, N.J.; New Orleans; and Washington. The disparity in some district offices, which generally cover either all or a major portion of a state, was particularly acute.

IN DALLAS, for instance, the average SBA loan made in predominantly black and Hispanic areas was $16,117, but the average loan in all other areas of Dallas was $31,163 — or 93 percent more.

In Philadelphia, the average loan in black areas of the city was $29,463, but the average loan in all other areas was $47,346 — or 61 percent more. The situation was the same in the 16 offices. In each case, areas of high minority concentration received less than predominantly white areas.

Not only has the SBA given smaller loans to minority businesses, it has compounded the problem by concentrating high-risk types of businesses in the depressed areas. In fact, the agency's direct lending portfolio has been heavily concentrated in six types of businesses: bars, restaurants, food stores, cleaning shops, clothing stores, and truck hauling firms.

THOSE SIX TYPES of businesses accounted for 41.6 percent of the 14,261 loans reviewed by The Globe-Democrat, with more than 350 other types of businesses

accounting for the remaining 59.5 percent of SBA direct loans.

Leading the list in terms of numbers of SBA direct loans were restaurants, which received 1,385, or almost one in every 10 loans. Next were bars, which received 1,121 loans, and food stores, with 1,071 loans.

In St. Louis, for instance, although the SBA office made loans to 231 different types of businesses during the period 1970 through 1978, 48 percent of all defaults during that period occurred in those six types of businesses, records show.

The SBA office here and other offices around the nation are seemingly oblivious to the high risk and low need for these types of businesses, but nonetheless continue to finance new bars, restaurants, grocery stores, cleaning shops, clothing stores, and truck hauling firms — and each year more of these same businesses end in failure.

SBA loans for new businesses have been concentrated in a small portion of North St. Louis, Wellston and Kinloch.

This concentration has lead to a higher SBA loss ratio (defaults as a percentage of disbursements), pumping hundreds of new businesses into areas where it is difficult to support them economically. The result is a higher loss rate for the SBA and financial hardships for those people receiving the loans in the depressed areas.

OF 582 LOANS that ended in default during the period 1970 to 1979, slightly more than 50 percent — 293 loans — were from a two-square mile area in the northern metropolitan area of St. Louis representing only eight ZIP codes. The St. Louis SBA district office makes loans throughout Eastern Missouri.

In comparison, the rest of the St. Louis metropolitan area — representing 44 ZIP codes — accounted for only 38 percent of loan defaults.

The computer analysis by Comshare Inc. confirms what dozens of loan recipients from the northern St. Louis metropolitan area told Globe-Democrat reporters during interviews: Loans within the predominantly black areas were significantly smaller in comparison with loans made in surrounding, predominantly white areas.

The average loan amount in the predominantly black areas selected was $17,871, while the average loan in the rest of the St. Louis metropolitan area was $23,496 — or more than 31 percent greater. Computer analysis by Comshare shows no statistically significant difference in the types of businesses in both areas.

That means that while the same types of businesses received loans in both areas, those in predominantly black areas received less capital for their companies than fellow entrepeneurs in surrounding areas.

FOR EXAMPLE, of 67 defaulted loans to restaurants in the St. Louis area, 38 were in the northern portion of the city, and 29 in the entire rest of the metropolitan area. While the average loan amount to restaurants in minority areas was $16,989, restaurants in the rest of the metropolitan area received an average loan of $27,991 — or 65 percent more — and suffered a smaller default rate.

The same pattern is true with food stores, where the average loan made to the 41 stores that defaulted in the northern portion of the metropolitan area was $21,400, while the average loan made to the 15 defaulted stores in the rest of the metropolitan area was $27,498 — or 28 percent more.

"From a socioeconomic viewpoint," says the agency's procedures manual; "the indiscriminate approval of loans at a high volume and low rate of success can do nothing but impair our relationship with the small business concerns and communities that we are attempting to help."

The manual also stresses that "many loans are in liquidation solely because working capital requirements were not given adequate consideration."

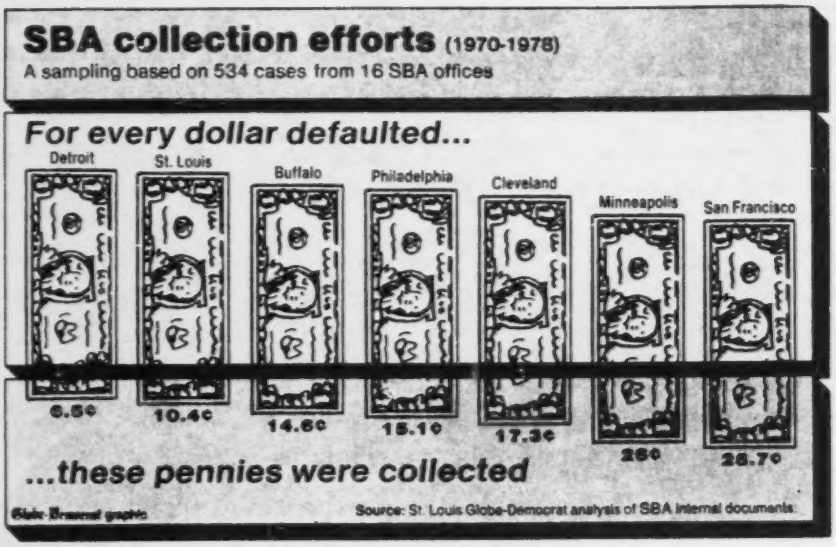
SBA OFFICIALS throughout the nation acknowledge the concentration of loans into the few types of businesses, but argue that because of the agency's policy of accepting loans in chronological order they have little or no control over which businesses get loans.

Additionally, they say, the six categories cited are "entry" type businesses that are common for people starting a business. Many SBA officials add, however, that they would prefer a system that would enable them to select loans for businesses based on the needs of the community and on the quality of the applicant, not just on a first-come, first-served basis, as required by their procedures manual.

More than $74 million was loaned into minority areas while nearly $400 million went into all other areas, according to documents from the 16 SBA offices. More than 2,900 loans were made in minority areas, and more than 11,000 went into other areas.

Businesses receiving most SBA loans

National		St.Louis	
1. Restaurants	1,385	1. Food stores	120
2. Bars	1,121	2. Restaurants	112
3. Food stores	1,071	3. Bars	104
4. Apparel	896	4. Truck Hauling	120
5. Laundry/Cleaning	661	5. Laundry/Cleaning	73
TOTAL	**5,134**	**TOTAL**	**529**



SBA gets pennies from dollars it's owed

By THOMAS L. AMBERG
and MICHAEL R. MONTGOMERY
Globe-Democrat Staff Writers

(Sixth of a series)

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The Small Business Administration collects just pennies on every dollar it is owed in direct loans from businesses that close down, despite regulations requiring "maximum recovery."

Collateral — land, buildings or anything else pledged by a borrower to secure the loan — is often grossly overstated, and, in some instances, is actually non-existent, records show. Collection efforts proceed slowly, and large sums are routinely written off without filing suit against the debtor.

Nationally, a survey of 534 files from 16 SBA offices throughout the nation shows that SBA collects just 18 cents on every dollar it is owed at the time a loan is placed in liquidation status. In some offices, the rate of collection is even lower. The SBA offices selected serve not only their metropolitan areas but all or major portions of their states.

IN DETROIT, FOR instance, records show that the agency collects just 6½ cents on each dollar it is owed at the time a loan is put into liquidation. In St. Louis, 10.4 cents per dollar owed is collected; in Buffalo, N.Y., the figure is 14.6 cents per dollar owed; and in Philadelphia, 15.1 cents per dollar owed is collected.

Two major causes for the poor collection have surfaced in discussions between reporters and SBA field personnel in the 16 offices: the widespread practice of deferring loan payments for borrowers who fall behind in their payments; and the easy willingness of the agency to allow other and later creditors to take a higher priority in their right to collect in the event of a default.

The practice of deferring loan payments, called "gaming" by some SBA officials, often is done to make an SBA office's loan portfolio appear to be more "current" (that is, to have fewer loans in a delinquent status). The deferred loans often are to businesses that are clearly failing, according to field personnel interviewed.

BY ALLOWING A recipient to defer payments to the SBA, there is often simply a reduction in cashable assets over the period of deferment rather than a saving of the business enterprise — with SBA ending up with little or nothing left in a business to collect on.

The second major cause of poor collections is the willingness to subordinate the agency's lien position on real property, those interviewed said. This puts the SBA in a poorer legal position to collect than other, later, creditors.

The result, once a business fails, often leaves the agency with no meaningful collection rights. But the new lender, charging high interest rates, makes thousands of dollars for five or six months of participation as a result of its better collection position.

IN SOME CASES, the reasons for lack of collection are unclear. What is clear, however, is the small return to SBA.

Some examples:

● On July 31, 1972, the SBA approved a $350,000 loan to the Martin Luther King Jr. Plaza Corp. in Cleveland. That loan, for a shopping center, was secured by a first mortgage on the land and buildings owned by the borrower, assignment of rights, title and interest in a lease agreement, and

guaranties of lease payments of $10,000 a year for 10 years to SBA.

On April 26, 1973, another $21,600 was loaned to the Plaza Corp. Less than a month later, another $93,600 was loaned to the corporation. Four days later, another $45,630 was loaned, and one week later, another $108,000 was loaned to the Martin Luther King Jr. Plaza Corp.

That, however, did not end the federal largesse to the corporation. On Sept. 24, 1973, the agency loaned it another $52,817, and followed it up in May 1975 with a seventh and final loan of $93,630. In all, the Martin Luther King Jr. Plaza Corp. received $765,277 from the SBA.

Slowly, but surely, however, each loan went into default, and the borrowers repaid the SBA a total of only only $4,848 of the $765,277 loaned. The agency was left holding the bag for another $100,244 in interest, which was written off with the principal for a total of $860,673.

What has the SBA collected on its business property collateral, its lease agreements and its guaranties from Plaza? $0.

The SBA made no attempt to collect, but still holds the mortgage paper, which officials now describe as virtually worthless.

● On April 5, 1973, the Dallas office of the SBA approved a loan of $100,000 to the Meridian Industrial Foundation Inc., as a partial financing of a $280,000 motel and restaurant project.

To secure its investment of $100,000, however, the SBA accepted a second lien on the land and buildings of the 24-unit motel and restaurant, a second security interest on the machinery, equipment and furniture, and rights to a portion of equity in a lease purchase agreement.

But when the loan ended up in liquidation, the first lien holder collected. SBA collected nothing.

● On Dec. 3, 1976, the Newark, N.J., office of the SBA loaned $76,000 to the Strickland Corp. to operate an automotive repair shop.

The loan was secured with a first security interest in the machinery, equipment, fixtures, furniture and inventory, as well as a first mortgage on the business real estate.

Yet when the business closed down four years later, SBA liquidation officers collected a grand total of only $187.50 and were forced to charge off $77,642 in principal and minimal liquidation charges.

● On Nov. 15, 1972, the Miami SBA office approved a loan of $31,000 to the Bryant Trucking Co., with the collateral to include a first lien on unimproved lots in Palatka, Fla., and a first lien on two new Chevrolet dump trucks. The dump trucks were bought for more than $31,000, according to SBA records.

But just 21 months later, when the loan went into liquidation, the SBA allowed the borrower to sell one of the trucks, and the agency sold the second one at a public sale. The total netted by the agency for the 21-month-old dump trucks was just $2,524, records show. The SBA did not try to collect anything from the land.

Literally hundreds of cases reviewed contained similar failures to collect on collateral or failure to require a lien position better than second or third position on collateral, which in most cases prove worthless to the agency in recovery attempts.

THE HIGHEST collection rate of any of the 16 offices surveyed was in San Francisco, but even there only 28.7 cents was collected on each dollar owed at the time of liquidation.

The Globe-Democrat's examination did find a regional disparity in collection rates, with the Western offices collecting more per dollar than offices in the rest of the nation.

Western SBA officials say this is a result of using deed of trust foreclosure proceedings on real property. The procedure allows a lender to bypass the necessity of going to court and allows it to obtain a summary foreclosure using a deed of trust. The result is faster and easier collection of real property, which is usually the bulk of collateral.

In the East, on the other hand, collections are complicated by a general lack of deed of trust laws to allow the same summary foreclosures used in the West. And there is a lower per capita rate of home ownership in the East than in the West, some SBA personnel say. With more apartment dwellers, the average loan is secured by less real property.

IN THE CENTRAL state offices, there is a mixture of collection rates brought about, apparently, SBA personnel say, by differences in work ethic.

"I really think there is a regional ethic," Denver District Director Chester B. Leedom says. "It has to do with the type of people and geography has to do with high recovery rates in liquidation. It starts to break down when you get into the large urban areas. The rural states are far better," he says.

Statistically, at least, Leedom's comments are borne out in The Globe-Democrat survey. The Minneapolis district office's collection rate is 26 cents on the dollar, while other, generally urban, states in the central area average far less. Detroit collects 6.5 cents on the dollar; Cleveland collects 17.3 cents per dollar; and St. Louis collects 10.4 cents per dollar. The more rural Western states also have a higher collection rate, as does the rural South, while the industrial East and Central offices lag behind.

But SBA field officials say the basic cause of collection failures gets back to the failure to adequately secure the loan in the first place, and the lack of enough staff members to monitor the loans.

SBA figures mislead Congress on rate of defaults

By THOMAS L. AMBERG
and MICHAEL R. MONTGOMERY
Globe-Democrat Staff Writers

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(Seventh of a series)

The U.S. Congress was given reports containing misleading and out-of-date loss rates on direct loans by the Small Business Administration throughout the 1970s, a Globe-Democrat investigation showed.

While the agency was losing one dollar of every three it loaned to businessmen in the direct loan program from 1970 through 1978 — totaling an estimated $571 million — it never admitted in reports to Congress a loss rate greater than 10.8 percent.

THOSE MISLEADING and understated SBA figures on default rates were accepted without question by the General Accounting Office, Congress' investigative arm, and passed on as fact.

As a result, elected officials have never been given a true and up-to-date picture of loss rates for the quickly deteriorating program, and there has been little concern over loans that have failed far more often than believed. Indeed, misinformed about the magnitude of the losses, Congress has repeatedly increased financing for the program.

SBA reports to Congress from 1970 through 1978 consistently understated loss rates by presenting financial data in such a way as to minimize losses from the $2 billion put into the program during the 1970s, a Globe-Democrat investigation showed.

SBA officials were able to paint an optimistic picture of the direct loan program losses every year by using cumulative default figures for the life of the program, extending back to the Eisenhower era. This obscured high losses for the last decade by merging the loss rate for any given year into the average loss rates for the early years.

SBA REPORTING practices made it virtually impossible to assess the performance of the SBA during any given year.

When the rates are averaged together, the low dollar loss rates for the earlier years serve to hide the serious deterioration of the program during the 1970s. As a result, the SBA has been telling Congress that the program's dollar default rate was 10.8 percent when, in fact, it was more than three times that high — 33.3 percent — as revealed by The Globe-Democrat's investigation.

In terms of numbers of loans defaulted, the default rate was even higher — 42 percent.

Not only has SBA's loss rate reporting technique kept Congress in the dark, it has kept SBA from knowing what has been happening.

When reporters asked SBA officials about the loss rate during the 1970s, they were told that the agency did not know what it was and that the agency was unable to check what happened to loans made in any given year.

Reporting only cumulative figures blurs the impact of sharply higher default rates and thereby creates little accountability for the effect of specific policies.

CHARLES R. Hertzberg, director of SBA's Office of Business Loans, acknowledged that point to The Globe-Democrat, saying, "Admittedly, your method (The Globe-Democrat method of tabulating loss rates by year) would give us a better reflective picture of the effect of our various loan policies."

SBA also failed, and still fails, to report the default rate in terms of numbers of loans — a more significant figure in a program that is designed to help individuals.

The newspaper obtained SBA loan data and files on 14,261 cases throughout the nation under the Freedom of Information Act. The data was analyzed by using the specialized computer systems and consultation services of Comshare Inc., an international computer services firm.

Congress expects to be informed of the progress and problems of the Small Business Administration by the General Accounting Office. But when reporters turned to GAO reports for statistics on loan loss rates, the figures they found turned out to be those passed on from the SBA without confirmation or checking by the GAO.

For instance, a GAO report on Aug. 21, 1979, into the 7(a) direct loan program (one of four business loan categories that make up the direct loan program) carried figures for loss rates for 1975 through 1978 after noting that "SBA's loss-rate figures, for all district offices, for fiscal years 1975-1978 follow . . ."

WHAT CAME NEXT was a listing of years and loss rates, with 1975 listed as having a loss rate of 6.42 percent; 1976, 6.51 percent; 1977, 6.50 percent; and 1978, 6.61 percent.

What the GAO report failed to mention was that the loss rates were not in fact loss rates for each year, but were cumulative totals for all years up to the year cited, and that the figures were not the result of its own study, but were supplied by SBA.

Henry Eschwege, director of GAO's Community and Economic Development Division, which supervises GAO reports, acknowledged to The Globe-Democrat, "We do often have to rely on data from the agencies, but when we find discrepancies, we'll use our own figures."

Although Eschwege said GAO routinely runs "reliability studies" on figures given it by various agencies before including the figures in its reports, an assistant, John Landicho, said that no such studies were undertaken on the SBA default figures, which passed directly from the SBA into GAO reports without questions.

When Globe-Democrat reporters asked GAO Acting Comptroller Milton J. Sokolar about the validity of the figures, he said, "In the final analysis, nobody can absolutely guarantee the accuracy of any figures, but I'd give a lot of weight to GAO figures."

COULD FIGURES in GAO's reports for 1970 through 1978 be off the mark? Sokolar replied with questions of his own: "Is it conceivable? Yes. Is it likely? No."

One top SBA official in a Western state, who asked not to be identified, called SBA's reporting system "simply invalid. What possible good does it do to have some cumulative default rate? What matters is to know what's happened to the loans made in a given year.

"Then we'd have some reasonable idea of the effect of our loaning policies for those years. The way it is now, the only purpose really being served is to conceal what's happening from Congress," he said.

Another top SBA official in a Midwestern state, who also asked not to be identified, said the figures were "not representative of the true picture" but added that there were "obvious reasons" for the SBA's method of reporting the loss rate.

"We've been told to push these great programs, but for every person (who gets a loan) at the end of the pipeline, there are 9,999 who don't like government giveaways." Hence, the figures "are masked for the best possible picture," he said.

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Globe-Democrat Photo by John Bloomquist

Globe-Democrat Photo by Paul Ockrass

Two businessmen who have been successfully helped by the SBA. At left, Herschell Clark, who owns Clark Tire Co., at 10520 Big Bend Blvd. At right is Tyree W Hale in his funeral home at 1238 N. Kingshighway Blvc

Success stories tell how SBA should work

By THOMAS L. AMBERG
and MICHAEL R. MONTGOMERY
Globe-Democrat Staff Writers

(Eighth of a series)

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Successes in the Small Business Administration's direct loan program have come when SBA granted loans to applicants who had experience in the business and general management, and who invested something of value of their own in the enterprise.

Those success stories point clearly to why 42 percent of the loans end in failure and default.

The agency's lax procedures in the last decade have allowed many without experience or managerial ability and with little personal financial stake in the business to avail themselves of huge amounts of federal money at the taxpayers' expense.

THE GLOBE-DEMOCRAT asked SBA district offices throughout the country to submit a list of borrowers who had gotten direct loans and done well in business, either paying the loan off entirely or continuing to make regular payments.

After interviewing these "successes," reporters found that, in all but a handful of cases, the reasons for success boiled down

to: experience in the business, some general managerial experience, and investment of personal money or equity by the borrower.

The successful firms reviewed by The Globe-Democrat tend to be those that received loans "by the book," that is, with SBA closely following its regulations calling for loans only to those with experience in the business they are seeking to enter, with managerial experience, with "a reasonable amount (of personal equity) at stake in the business" and with an assurance of repayment ability.

The investigation shows those with little business or general managerial experience tend to be the ones who end up in default.

Some examples of the successful businesses:

● In 1971, Seymour Beneroff was running a small, "hole in the wall," corrugated package company in Brooklyn, N.Y., when the city forced him out of his building to make room for a building project. Benc turned to the SBA for a loan to allow him buy his own building in Linden, N.J., and t agency complied, making him a loan f $202,500.

Since then, business has boomed a Beneroff has about 75 employees, he sa "Without the SBA's help, I don't think would have gotten anywhere," he says.

Beneroff had several things going f him, as well. He had spent 18 years in t corrugated package business, spendi much of that time as a sales manager a general manager, before founding his o firm, Squire Corrugated Container Corp., 1967.

Beneroff has his own ideas about wh works at SBA and what does not. "Wh they try to make it a social progra seeking out special groups to help, it seer to fail. But when they stick to helping you businesses, that's when it really works."

● Nunzio J. Incremona was operating small garden and florist shop in Philadelphia mart in 1979 and had be doing a brisk business for several ye when an SBA loan official happened to ta note of the business and asked Incremo whether he would be interested expanding.

With a $30,000 loan from SBA and $12,

of his own money, Incremona set up Incremona's West End Florist and Garden Center in Lansdale, Pa., a Philadelphia suburb. Business has increased 150 percent in the last year alone, and he has expanded into a full-scale nursery and greenhouse, he says.

● St. Louisan Herschell Clark says his SBA direct loan six years ago "really helped me out." At that time, his fledgling firm was undercapitalized and badly in need of money to help it expand, he says. When banks turned him down, he turned to the SBA, which gave him $20,000.

Clark had about eight years experience in tire operations, including managerial experience, before receiving his SBA loan and opening the Clark Tire Co.

Since then, business has "just about doubled every year," and sales this year will exceed $2 million, he says. Whereas he had been renting the building where the firm is located, at 10620 Big Bend Blvd., he has since bought the entire block, opened a second store and is considering a third.

In making the loan, SBA did something it now rarely does — it went out and looked at the business location and did thorough cash flow projections. Clark put up two houses and two cars as collateral.

In addition, SBA did something else it rarely does now — a servicing officer visited Clark every three months or so to check on the business and offer advice. Clark's loan will be paid off in about a year, he says.

● Having been a branch manager for the Wurlitzer Co. in Boston for five years, Gene B. Hale Jr. earned a master's degree in business and then ventured into business. Turned down by banks, he won the approval of the SBA for a $66,500 loan in 1977 and set up Hale Piano & Organ Co. in a regional mall store in Madison, N.J.

Since then, the SBA has given him another $68,500 for a second store, and business has been so successful he has been able to open a total of four stores. Sales have more than quadrupled in less than four years, and he has a good relationship with a local bank, enabling him to move out from under the federal government's wing, he says.

● Tyree W. Hale has a long history of experience in the mortuary business in St. Louis, having graduated from mortuary school in 1947 and worked in the business ever since. He built Hale Funeral Home in 1962 at 1238 N. Kingshighway Blvd., and got his first SBA loan, for $1,600, in 1964.

Since then, SBA has given him three more loans, totaling $36,000, enabling him to expand his business, and has sent SCORE (Service Corps of Retired Executives) representatives to help him with specific business problems.

He credits SBA with giving him the chance to expand his business, but adds, "SBA isn't in business to put people in a successful business. They're there to help you, but you've got to be able to make it go yourself."

He advises younger people wanting to get a start in business "to get some working knowledge of the business they want to go into" before they seek a loan.

"I spent a year and a half working in insurance just to find out what kind of insurance problems I'd run into in the funeral business," he says.

In virtually every case examined by reporters, successes in the direct loan program involved people entering a business in which they had had past experience, with at least a modest background of management in some type of business, and with a certain amount of their own equity involved.

SBA's mission clouded by confusion

By THOMAS L. AMBERG
and MICHAEL R. MONTGOMERY
Globe-Democrat Staff Writers

(Last of a series)

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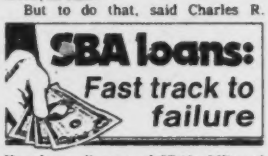
At the core of the problem with the Small Business Administration's direct loan program is a lack of definition about what really is the program's — and, indeed, the agency's — true mission.

This is the public and private assessment of top SBA administrators in Washington and field personnel in 16 district offices contacted by The Globe-Democrat. Most agreed that there has been confusion over whether the program was to be administered as a social or an economic program. Indeed, the agency's manuals refer to the program as both.

So varied is the implementation and administration of the program that while some district directors swear by it, others swear at it.

"UNLESS LOAN officers were deaf, dumb and blind, the thing that guided them in the last decade was numbers, not quality," said Earl Chambers, SBA's director of portfolio management. Now, the task is to reorient loan officers into thinking about quality loans, not the quantity of loans, he said.

But to do that, said Charles R.



Hertzberg, director of SBA's Office of Business Loans, "there has to be a stated policy, either from Congress or from the administrator (SBA Administrator Michael Cardenas)."

And "once the policy is clearly stated, then there has to be a period of retraining," Hertzberg said. "If someone grows up in this system and only knows what's gone on for the last 10 years, then there's some serious retraining necessary."

SBA officers quickly pass the blame for a massive default rate in the program to Congress, complaining that Congress ordered them in legislation to use the loan program to aid various social groups — and in effect make the direct loan program a social program rather than a financial lending program.

"WE'RE THE TOOLS of Congress," said New Orleans District Director Joseph M. Conrad Jr. "Congress should decide what is an acceptable loss rate (in the program)."

What is clear, as The Globe-Democrat has revealed in its long investigation of the SBA, is that the SBA has indeed turned the direct loan program into a social welfare program, but in doing so has mismanaged and distorted it, with the result that:

● More than two of every five direct loans made end in default and failure — and this loss rate is itself understated by the agency's willingness to grant "deferments," largely to make an individual office's loan portfolio "look better."

● More than $571 million was lost in the program from 1970 through 1978, largely through lax procedures and

loose policies, and that figure can be expected to reach $900 million if defaults from 1979 and 1980 are consistent with previous years.

BUT, HERTZBERG said, "If we reimposed prudent lending policies in regards to direct loans, such as matching dollars for private investment, we would make fewer loans to disadvantaged people. Whether that is right or wrong to do is up to Congress."

● Totally inexperienced and unqualified people often end up receiving loans from the agency, with many soon joining the ranks of failure.

● The very people the program is designed to help often become its victims, as inexperienced recipients who end in failure often lose their life savings, credit ratings, jobs, and in at least some cases, their families as a result of debt and frustration.

Contributing heavily to the high default rate, the inconsistency in the experience of the loan recipients, and the seeming inability of the agency to screen out exceptionally high risk loans, is an agency procedures manual that is loose and ill-defined — leading to a program that has the same characteristics.

FOR INSTANCE, while the manual (called Standard Operating Procedure manual) calls for direct loans to have "reasonable assurance of repayment," it never defines exactly what that assurance is. Similarly, the manual requires recipients to have demonstrated managerial ability, but does not define it in any way.

When an applicant has no management ability or experience, he is encouraged to attend a one-day workshop to learn to be a businessman.

The SOPs are equally unclear in terms of guiding a loan officer in how to distribute money within a loan — that is, how to allocate money among equipment, leasehold improvements, working capital or other needs. While the manual indicates that money should not be used to "bail out" a private creditor of the applicant, the language is lax enough to provide virtually any interpretation by a loan officer.

AND THAT, the Globe-Democrat investigation found, is exactly what has happened.

● An analysis of a sample of SBA loans showed that a third of the direct loans made by SBA went in part or in whole to pay a borrower's pre-existing business debt. Many of those loans were large loans granted for the sole purpose of paying off past debt.

Other major points in The Globe-Democrat's investigation included:

● The SBA has consistently understated its loss rate to Congress, never admitting in any given year a loss rate more than 10.8 percent — although The Globe-Democrat determined the actual dollar loss rate was 33.3 percent and discovered that Congress's watchdog, the Government Accounting Office, has simply passed along SBA's figures with virtually no scrutiny.

● Loans made to businesses in predominantly non-minority areas are 41.1 percent larger than loans made in depressed, minority areas.

● The agency's portfolio has been largely concentrated in only six types of businesses — bars, restaurants, food stores, clothing stores, laundry and dry cleaning shops, and truck hauling firms — recognized by commercial lending experts as exceptionally high-risk ventures.

● A severe shortage of servicing personnel makes it wholly unrealistic for the agency to give adequate attention to loans, increasing the chances of failure and diminishing the agency's chances of recovering collateral.

● The agency collects just 18 cents on each dollar it is owed once a loan goes into liquidation, the last step before a loan is charged off as a loss.

THERE IS ALSO wide disagreement over how much help the direct loan program actually gives a new businessman by loaning him money directly — that is, without bank involvement — and at a rate well below commercial lending rates.

Washington, D.C., District Director Freddie Collins said the program is necessary because it gets people into business who cannot get any help from banks. "My personal feeling is that the program is not large enough. The demand for the program is so much greater than the supply of money," he said.

But, San Francisco's chief of portfolio management, Russell Stoddard, said, "The direct loan program never gets that borrower into the mainstream of the business community and dealing with a banker. If we cannot reach the small-business men effectively through the banking system, there is no justification for this program. In my judgment, it's not worth continuing."

Denver District Director Chester Leedom said, "One of the fallacies of the direct loan program is the subsidized interest rate. It doesn't do the borrower any good to get an artificially low rate. He just has to face the real world at some point."

And, said Cleveland District Director S. Charles Hemming, "With the amount of demand and the artificial interest rate, I wouldn't try to put Band-Aids on the program. I would eliminate it; it hasn't done that much good. The good that comes out of it would have eventually been there anyway."

Sen. Dixon Calls For Hearings on SBA Direct Loans

By THOMAS L. AMBERG
and MICHAEL R. MONTGOMERY
Globe-Democrat Staff Writers

Citing disclosures in a series of Globe-Democrat articles, U.S. Sen. Alan J. Dixon has called for congressional hearings into the Small Business Administration's direct loan program.

The Illinois Democrat, a member of the Senate Small Business Committee, said Thursday he would ask the committee chairman, Sen. Lowell P. Weicker, R-Conn., to convene hearings "as soon as possible" to "deal with the findings contained in The Globe-Democrat's series."

He said hearings could begin as early as October.

"If The Globe-Democrat's findings are correct, then we've got a program that is in very serious trouble, indeed," Dixon said. "Hearings will enable us to get the answers and perhaps to chart a new path for this program."

Dixon said that while The Globe-Democrat investigation revealed "what seems to be a very high default rate, more importantly, the newspaper has raised the larger questions of what has this program accomplished and where is it going."

CALLING THE NEWSPAPER'S series "very constructive," Dixon said he believes Senate hearings will improve the SBA program. "Our goal is not to hurt, but to help," he said.

"It's also important that we recognize the programs which have been successful, not just those which failed," he added. "But when a program develops problems, it's critical to see that those problems are corrected.

"It's not only essential — it's mandatory — that the Small Business Administration be administered in an impartial and competent way," he said. "The Globe-Democrat has performed a commendable public service by bringing abuses and mismanagement within the direct loan program to light."

After a lengthy and intensive investigation, involving the review of more than 14,281 loans from 16 district offices throughout the nation, The Globe-Democrat disclosed that:

● More than two of every five direct loans end up in default and failure — and the actual loss rate is masked and significantly understated by the agency's willingness to grant "deferments" to borrowers, largely to make an individual office's loan portfolio "look better."

● More than $571 million was lost in the program from 1970 through 1978, largely through lax procedures and loose policies, and that figure can be expected to reach $900 million in defaults if figures for 1979 and 1980 are consistent with previous years.

● Totally inexperienced and unqualified people often end up receiving loans from the agency as loan officers rush to "get the money on the street." Quality has been sacrificed for quantity, top SBA officials say.

● While the program is meant largely to help the disadvantaged and minorities enter the mainstream of the American free enterprise system, the lax practices of the last decade have resulted in many of these disadvantaged people becoming victims of the program, as inexperienced recipients who fail often lose their life savings, credit ratings and jobs as a result of debt and frustration.

● For no apparent reason, the SBA has given an average of 41.1 percent more to businesses in predominantly white areas than to businesses in heavily minority areas — matched by a larger default rate among minority businesses.

Black businessmen interviewed claimed the lower level of financing meant almost "guaranteed failure."

● The SBA collects just 18 cents on each dollar it is owed after a loan has gone into default.

● About one-third of all direct loans made by the SBA went in part or in whole to pay off a borrower's existing business debts — in apparent violation of SBA regulations.

Mr. HILER. A lot of us are extradordinarily concerned about whether it is going to be possible to move the SBA in the right direction. So when yo say that you have gotten the word out that this Agency is around for the long haul, I sure hope that in the areas of direct loans, the oversight of SBIC's and management assistance we are starting to make some progress. It is very disconcerting for someone who has been here 18 months and who previously was involved in small business to continually have these examples. It is your problem now that you are Administrator, and something has to be done in the program to get this situation corrected.

It is not doing your Agency any good and it is not doing the funding any good. As I said, just a few months ago, we were implored to increase the SBIC authority by $100 million or something like that, and here we have examples of loans going to folks probably shouldn't qualify or probably should be looked at with a jaundiced eye.

That is not to say that every loan made out of an SBIC isn't good but it is to say that we ought to really have some oversight there.

So with that I will yield back the balance of my time and implore you to do everything humanly possible to get some of these things corrected over there.

You have only been there 2½ months and, as I said, you inherited some bad problems from the past, and it is a deep swamp there you are going to have to wade through, but I sure hope that you can do it. I yield back my time.

Mr. MITCHELL. Thank you.

Mr. Daub.

Mr. DAUB. Thank you, Mr. Chairman.

I really want to talk about one subject, Mr. Administrator, and that is Devil's Lake Sioux. The definition of small business requires that the small business be independently operated. What is the definition of operated? Do you have that definition?

Mr. SANDERS. I think we can go to the heart of that as far as the Devil's Lake Sioux which meets the qualifications on several points. With the operation of the management infrastructure by the Brunswick Corp., I don't think that this is putting money in the right pockets.

Mr. DAUB. They have been given an 18-month extension in their 8(a) process. They have had a heck of a lot of support now. Is that 18 months warranted?

Mr. SANDERS. Well, we are looking at that company right now to see how this ever started and why we got this far with something that on the surface doesn't appear to qualify. There are some inherent problems, of course, involved in this like all these things. Evidently this tribe has depended on these kinds of contracts for their income. And although they don't seem to be progressing in their ability to manage the company themselves, we would have a serious severance problem for those people that are members of that tribe.

Yet, that isn't the SBA's responsibility when we look at the definition of what we are trying to do in this particular 8(a) program. So, yes, we are reviewing that. We will probably come to a decision about that particular tribe and that activity within the next few weeks.

Mr. DAUB. I am delighted to hear that you are looking into it. I read that the tribe purchased 2 percent of the stock in 1979, although they were involved with the whole award since 1973 that the Indian tribe has one management member, a foreman who is designated vice president. No other tribal members trained to hold any supervisory positions and I can just go down the laundry list here.

I think this is a tragedy, that the thing ought to be looked at very carefully and I don't think the 8(a) program is served well at all by front operational efforts like this, and we certainly aren't giving that disadvantaged sectional definition of minority any opportunity to grow after what is nearly 10 years of support, if that is the right word to use.

So I am glad to hear that you are looking into it.

I have a lot of other questions and interest, Mr. Chairman. One of the witnesses who will testify in the third panel is from my State and will deal with a subject I am most especially interested in, which is minority enterprise for Native Americans.

We have tribal activities in our State and one of those persons is here to testify today. I have worked with the constitutional rights of American Indians, Native Americans, and I will wait until that particular panel member gets here today. We have had a lot of subjects talked about in prior hearings and I would like to focus on that one a little later on.

Thank you.

Mr. MITCHELL. Thank you. We have gotten a copy of counsel's statement, and before you leave, I would like to give you a copy of correspondence from the Associate General Counsel of the United States which rebuts the position taken by your counsel.

We will make a copy of this available to you. Based on this, I would say that it was not legal.

[The memo from the U.S. Associate General Counsel follows:]

[Memo]

To: Bernard Kulik, Associate Administrator for PA.
From: Donald W. Farrell, Associate General Counsel.
Subject: COC Referrals under $10,000 (OGL Log No. 9212—BLS):

This responds to your request for an opinion regarding the authority of SBA to limit Certificate of Competency (COC) referrals to those solicitations where the contract value is $10,000 or more.

Prior to the passage of Pub. L. 95-89, August 4, 1977, § 501, 91 Stat. 561, SBA had agreed with the procurement agencies that its authority under Section 8(b)(7) of the SBAct would not be exercised if a proposed contract award is less than $10,000. The statute then and now imposes no limitation on SBA's authority. SBA, in reliance on the discretion implicit in the statutory phrase (see Section 8(b) of the SBAct) ". . . whenever it determines such action is necessary," agreed with the procuring agencies that its COC authority would not be exercised if a proposed contract award was for less than $10,000.

Should your office wish to reinstitute this policy of not exercising its COC authority on contracts of less than $10,000, it may legally do so pursuant to Section 8(b) of the SBAct.

Mr. MITCHELL. Congressman Wyden is not a member of this particular committee. He has a particular question he wants to raise at this time.

Mr. WYDEN. Thank you very much, Mr. Chairman.

I appreciate your indulging me even though I am not a member of the subcommittee. As a member of the full committee I take a

great interest in this area, particularly since I represent so many minority businesses in my district in Portland, Oreg. Before I proceed with my questioning, Mr. Chairman, let me compliment you for your leadership in this area. I think your advocacy for minority business is so well known it almost goes without saying but I want to echo it because I have this opportunity today.

Now, my question to you, Mr. Sanders, is that I wrote you several weeks ago about the delay in your setting up processing procedures for the fixed term participation change in the 8(a) program.

Now, I hadn't gotten an answer as of this morning so I thought I had better come on down here and ask you formally for the record.

Now, in my estimation, with this delay in setting up the processing procedures, minority businesses are being denied access to the 8(a) program. Now our office is out in Portland, Oreg. The SBA office in Portland reports that field offices have been specifically forbidden to process new applications until they have this information in hand, until they have the processing procedures in hand.

I think in asking this question I think we ought to remember that the whole idea, the fundamental premise of changing the 8(a) program is to get old firms out of the program so you could get new ones in, yet the delay in getting these processing procedures in place has totally thwarted the goal.

You have 35 minority firms in my area of Portland, Oreg., waiting now to have an opportunity to apply. One contractor told me that he lost the opportunity to bid on a project—a $5.6 million project—because he wasn't certified and the question I have got for you, in your statement you say that operating procedures related to application processing will be issued shortly. Now I would like for you to give us a specific date. My contractors want a specific date when those procedures are going to get out in the field. Could you give us that date?

Mr. SANDERS. Yes, I think we can, Congressman. First of all, I would like to apologize for not answering your letter. Off the top of my head, of course, I can't remember all the letters that have been answered but I try to make it a top priority to answer any Congressman's letter as quickly as possible or phone call, for that matter, and particularly members of the subcommittee.

I think it would be rather foolish for an administrator not to do so. Sometimes I don't have a quick answer and sometimes there isn't one, and I am grateful that you bring up some of these subjects. It helps in our management. Insofar as those new procedures, I want you to understand that it is our primary goal in this graduation process to see that not only are the new firms equipped to live in the competitive world but definitely the first priority is to make room for new firms to participate in this program.

These procedures were approved yesterday so they should be out to the field and in their hands by the end of the week. This is Wednesday. I should think that they will be given the go-ahead.

I would also ask the Associate Administrator in charge of this program, Dr. Wright, to make some comments on that.

TESTIMONY OF ROBERT L. WRIGHT, JR., ASSOCIATE ADMINISTRATOR FOR MINORITY SMALL BUSINESS AND CAPITAL OWNERSHIP DEVELOPMENT, SBA

Mr. WRIGHT. Just as another part of that, Congressman, as you know, we have a tremendous job to undertake to just implement Public Law 96-481 which really took an inordinate amount of our time. Because of trying to do this, we have gotten behind in processing new applicants.

Now as this process is behind us and our new procedures are out, the revised business forms have already been mailed to district offices so we anticipate that once these procedures reach the field offices they can immediately begin to process new applicants.

Mr. WYDEN. Your feeling is by the end of this week new applicants can begin to be considered? We can tell our minority contractors that by the end of this week?

Mr. WRIGHT. I would say by the end of this week our instructions would be to the field so they would know how to go about handling new applicants.

Mr. WYDEN. There should be no more delay at that point. As soon as they get it in their hands we can get on with it.

Mr. WRIGHT. At least they have the instructions and they have the forms so there is nothing then to prevent processsing from taking place.

Mr. WYDEN. Thank you.

Mr. MITCHELL. Will you provide the members of this committee with a copy of the new procedures?

Mr. WRIGHT. Yes, we will.

[The documents referred to above appear in the appendix.]

Mr. SANDERS. I might add one comment. The Congressman said that this gentleman that you talked about, the one contractor with the $5 million contract who wasn't able to bid. You know that he can bid outside the 8(a) program. The 8(a) program is not a bidding process. If you want to bid on the government process you can go on and do that.

Mr. WYDEN. Apply was probably a better word.

Mr. MITCHELL. Let me just comment on that briefly.

What you are saying is quite accurate but more and more I find that on an informal basis the private sector looks to the person who is 8(a). It is a definite advantage to them to make that bid. While there is nothing to prevent the guy from making the bid without the certification, informally that is the way it works and I hope these new procedures will be implemented very quickly. We have a large number of witnesses and I have a large number of questions. How is your time running this morning?

Mr. SANDERS. Mr. Chairman, I will always take any time you need.

Mr. MITCHELL. Well, I am wondering if you can take a little bit more time and let me hear from Mr. Rivera and then I might have one or two more questions for you?

I will try and be as quick as possible.

Congressman Gonzalez, do you have any questions?

Mr. GONZALEZ. As you know, we have conflicts in our subcommittee meeting and I couldn't get here earlier. I wanted to ask the

questions that I could in the allotted time, and ask unanimous consent that those that we wouldn't have time for, be submitted to the witnesses for their written responses. I guess you are proceeding under the 5-minute rule?

Mr. MITCHELL. Yes, we are; at this juncture I would ask unanimous consent for all members to submit questions in writing to the Administrator.

Mr. GONZALEZ. OK.

First, this is a very agitating question that arises from the district. One, will 8(a) contractors who have already filed requests for extensions over and above the presently existing fixed program participation terms have an opportunity to amend their requests if and when new regulations are published?

Mr. SANDERS. I am going to ask Dr. Wright to answer that question.

Mr. WRIGHT. Congressman, we are in the process now of finalizing the criteria for extensions. As soon as those criteria are finalized then we will be getting those out to the district and regional offices.

As you know, the extension process was also a part of Public Law 96-481 and right now since we have gotten that first part behind us we will be getting the extension criteria out. Of course, that provides another avenue for the firms and for the agency to take another look at the term that was given previously.

Mr. GONZALEZ. Of course, that leads to the second question and one which I think begs a question.

How does the mutually agreed termination date affect negotiators as required by the statute when all the deadlines are arbitrarily set? For instance, in my district, the best information I get is that you have an arbitrary deadline in the San Antonio area but nowhere else.

You have a different period of extension time, a greater period of extension time outside of the San Antonio area and there is a great sense of indignation and a feeling of discrimination and naturally I am sensitive to it. So, how does this mutually agreed termination date get negotiated as the statutes require when the deadlines are arbitrarily set?

What is the rationale behind the deadlines? What is your rule of thumb if such exists?

Mr. WRIGHT. Well, Congressman, I am personally not aware of any arbitrary deadlines. The deadlines that we were motivated by were deadlines that were actually set by Congress. That deadline was April 21, 1982 wherein it was mandated that we should have all our fixed program participation programs set by that time.

If they are arbitrary dates that we don't know about——

Mr. GONZALEZ. Yes, sir; there are. Let me advise, and I would appreciate very much a look into it.

Mr. WRIGHT. Sure.

Mr. GONZALEZ. Third question, how does the Administrator intend to cure the failure of the January 25, 1982 submission where the internal Bulletin No. 3 was used for grading, but not made public as required by the Administrative Procedure Act of 1946, as amended, where the rules must be proposed for comment

before these regulations do become final? What is the intention of the SBA here?

Now, I am aware of the fact of the circumstances of the departure of your first Administrator under this administration were I think very questionable, and very embarrassing. He had issued pronunciamentoes that I thought were very radical as to the SBA's purpose with respect to minorities. Nevertheless, I realize he inherited that, but how would you cure this failure of January?

Mr. WRIGHT. Well, I think this question also arose when we were having our 8(a) hearings out in Dallas and I think that was a person from the San Antonio area that raised this particular question.

Mr. GONZALEZ. Right.

Mr. WRIGHT. Congressman, I think you realize, as many of us do, that the whole process of trying to implement Public Law 96-481 was very difficult, to say the least.

Mr. GONZALEZ. I am aware of that.

Mr. WRIGHT. We feel that in light of that we probably did the best we could to try to be fair and equitable to everybody. Unfortunately, the law was passed in 1980. There were several deadlines that were missed as we began the transition from one administration to the other and perhaps as dates and times began to get pushed back in some instances we had to move somewhat rapidly and to that extent we may not have gotten information out sometime as quickly as we possibly could have.

But trying to meet the April 21 deadline and trying to protect the integrity of the program and trying to make sure that firms, after that deadline passed, would certainly still be eligible for 8(a) contracts was our motivating factor. Anywhere along the line that we may have dropped the ball. If, in fact, we did, we certainly apologize. Anything we can do now in terms of trying to address some of your concerns we would be happy to do.

Mr. GONZALEZ. I appreciate that.

One more and then I am sure my time will be up by then and I will submit the others in writing. Everybody that has anything to do of any substance in the area of the district as a community, the contractors with obligations to purchase equipment for current year contract performance cannot now secure financing after the banks know that the 8(a) program participation date does not extend for the full term of the contract obligation.

What is the present thinking of the Administrator in supporting 8(a) contractors against this kind of arbitrary or unfair and certainly prejudicial effects of the November rules?

This is a very clear and ongoing agitating fact confronting these small entrepreneurs.

Mr. SANDERS. There are obviously a whole series of problems that come about as a result of the graduation; the overlapping or extension of contract beyond the term, and the ability of people to respond to those kinds of things when they seem to have been graduated.

We have made some provisions and we are working on some other regulations that will apply to those that have graduated and the problem of contracts that exceed their participation in the program. Maybe Dr. Wright would like to make a few comments about

some of those things that we are considering because we do know this problem exists.

Mr. WRIGHT. Congressman, we want to be as flexible as we possibly can because obviously there cannot be a hard, fast rule that will govern each and every firm, particularly with this FPPT. It is anticipated in certain instances that a contract that may extend beyond a fixed program participation term. We also realize that in some instances there will be optional contracts that also extend beyond the participation term.

The present course that we are taking is that we would like for the agencies to cooperate with the firm and with us to extend those options up to a certain period of time.

On the other hand, the contracts which may be extended over a certain period of time, we may have the leeway. That may be a factor which might also be involved in the extension process. So we feel there is some flexibility built in and certainly we would address that issue.

Mr. GONZALEZ. In other words, you said you would be flexible. We must never forget that some of these agencies, literally we have had to push them in screaming and still have very racist, prejudicial, and discriminatory feelings.

You have a poor contractor that is out, say, for laundry equipment and if he can't get his line of credit now, what he is compelled to do in the name of economy by these agencies, is to lose all this equipment and investment put up at auction, ending up worse than he was before SBA, with the best of intentions, was trying to help a small businessman.

This is a thing that I was trying to see if we could have addressed. I will submit the remainder of my questions in writing.

[The remaining questions of Congressman Gonzalez follow:]

ADDITIONAL QUESTIONS OF CONGRESSMAN GONZALEZ

Public Law 96-481, October 21, 1980, contemplated final regulations within 120 days of enactment. These regulations were, in fact, published and became final only on November 23, 1981, with a deadline of Jan. 25, 1982, for business plan submissions.

Question. What support is the Administration planning to provide to meet its part of the joint plan for the contractors that projected 3 to 5 years of added SBA support, even if declining in quantity?

Question. In Region 6, the regional office cut terms back from those recommended by the district offices. Reports in other regions are that regional offices gave contractors the larger of the time ranges.

Exp: Janitorial contractors were 12 to 24 months at district. Regional 6 allotted 14 months, starting April 8.

Prob: Several have 3-year contracts (1 yr. w/2 option years).

Question. What steps is SBA Administrator willing to take to provide termination transition assistance during the extension period?

Mr. MITCHELL. Mr. Administrator, it would be unfair to keep you waiting and we will submit some questions to you in writing. I do want to put one last question to you that is rather urgent. There is an Inspector General Report to Congress dated June 1, 1982, which criticizes the Minority Business Development Agency in four areas: planning, direction, board of implementation and monitoring, evaluative assessment. That report labels MBDA as the weakest agency in personnel expertise and project monitoring. In light of that

report, would you recommend that the 8(a) program be turned over to MBDA?

Mr. SANDERS. Mr. Chairman, may I not give you a yes or no answer?

Mr. MITCHELL. Well, that is what I want.

Mr. SANDERS. Well, I haven't seen that report and I don't know who put it together.

Mr. MITCHELL. The Inspector General.

Mr. SANDERS. Which Inspector General?

Mr. MITCHELL. Of Commerce.

Mr. SANDERS. The Commerce Inspector General.

Mr. GONZALEZ. Well, there is a conflict of interest there.

Mr. MITCHELL. Well, that is all right.

Mr. SANDERS. I don't even know him but I think maybe that is leading to a question of my posture regarding the consolidation or the rumor of——

Mr. MITCHELL. It most specifically is.

Mr. SANDERS. Would you like me to tell you where I stand on that?

Mr. MITCHELL. Yes.

Mr. SANDERS. I have made it clear to the administration that insofar as any study reveals that consolidating the minority business efforts, neither SBA nor Commerce would achieve substantial economies and efficiencies in the treatment of minority businesses.

In the end result I would support anything that can demonstrate that but I have gone on to admonish any of those who are considering any kind of consolidation that the real problem—whether it is consolidated at SBA, Commerce, or wherever--the real problem is dealing with the success of emerging the minority firms from the 8(a) program, competent and ready to compete in the real world and making room for more. We have failed in large measure to do that in the 11 years or so this program has been there; that is my main concern.

Mr. MITCHELL. I must confess that I am astounded by your answer in light of the report. I wouldn't ever want any program to go into any agency that is labeled the weakest of all the agencies.

Mr. DAUB. Mr. Chairman, if I might state, one of the reasons that we put the fixed term in is to be sure that abuses within the program are expelled, so that there is an opportunity for a lot of other businesses to get involved and I, for one, would be very reluctant, Mr. Chairman, to see a merger of the minority 8(a) programs into the other program until we have achieved the strength of it under the new law.

Mr. MITCHELL. Thank you very much, sir, and all of you gentlemen.

We will submit our questions to you.

Mr. SANDERS. Will you have any further use for my testimony?

Mr. MITCHELL. We will always have further use for your testimony but I am a kind gentleman and don't want to infringe on your time and, therefore, we will put the questions to you in writing.

Thank you for being here.

Mr. SANDERS. Thank you, Mr. Chairman.

[Information and material requested from SBA follows:]

U.S. SMALL BUSINESS ADMINISTRATION,
Washington, D.C.

Hon. PARREN J. MITCHELL,
Chairman, Committee on Small Business,
House of Representatives, Washington, D.C.

DEAR MR. CHAIRMAN: We have reviewed the transcript of the June 16, 1982 hearing held by the Subcommittee on SBA and SBIC Authority, Minority Enterprise, and General Small Business Problems at which the Small Business Administration Administrator James C. Sanders, Associate Administrator Robert L. Wright, and Associate Administrator Robert F. McDermott testified.

Several of the Members, including yourself, asked that SBA provide information regarding various issues of concern. We herewith provide such information.

1. Status of Devil's Lake Sioux (from Congressman Daub): Region VIII officials have reviewed this 8(a) firm or eligibility. We have received their report and are currently examining their findings to ascertain whether the firm is in compliance with current statutes, regulations, and standard operating procedures. We will keep you advised of any changes in the status of this firm.

2. Status of new application procedures (from Congressman Wyden): The revisions in our application procedures made necessary by the passage of P.L. 96-481 and 13 C.F.R. 124.1-1(c)(5) were sent during the week of June 21. All SBA offices are now in receipt of the procedures and should be processing new applications pursuant to the instructions contained therein.

3. Consideration of new applications (from Congressman Wyden): New applications are indeed being considered and acted upon at the District, Regional, and Central Office levels. It is estimated that approximately 500 applications are currently in some stage of processing, and additional applications are being received every day.

4. "Arbitrary deadline" in San Antonio District Office (from Congressman Gonzalez): All SBA District Offices, including the San Antonio District Office, were provided with specific procedures for processing the Fixed Program Participation Term (FPPT) negotiations with all 8(a) firms. Included in those procedures were several deadlines imposed by law, including the January 25, 1982 deadline for submitting revised business plans and the April 21, 1982 deadline for establishing fixed terms. A check with the San Antonio District Office revealed that those procedures were indeed followed and no other "arbitrary" deadlines were imposed. The Congressman referred in his remarks to "extension times" as being greater outside the San Antonio area. The length of extensions of Fixed Program Participation Terms is a matter which is set by Federal Regulation (the maximum period being the difference between seven years and the firm's original FPPT). Once the procedures are in place, they will provide that the Associate Administrator for Minority Small Business and Capital Ownership Development will have final approval authority in the interests of fairness and consistency.

We hope this information will be helpful to you. In the event you have any further questions, please do not hesitate to contact us.

Sincerely,

MARSHALL J. PARKER,
Assistant Administrator for External Affairs.

SMALL BUSINESS ADMINISTRATION,
Washington, D.C., July 21, 1982.

Hon. PARREN J. MITCHELL,
Chairman, Committee on Small Business,
House of Representatives, Washington, D.C.

DEAR MR. CHAIRMAN: At the hearing on June 16 you requested a report from the Small Business Administration concerning the article in the Wall Street Journal regarding the administration of the Small Business Investment Company Program.

Enclosed is the report. If we may be of further assistance please contact the Congressional/Legislative Affairs Office.

Sincerely,

MARSHALL J. PARKER,
Assistant Administrator for External Affairs.

Report on SBIC Issues Contained in Wall Street Journal Article of June 8, 1982

On June 8 the Wall Street Journal published an article critical of the Small Business Investment Company program. At a hearing on June 16 the Honorable Parren Mitchell, Chairman of the House Small Business Committee, requested a report from the Small Business Administration on the issues raised in that article.

BACKGROUND

Small Business Investment Companies (SBICs) are SBA-assisted investment companies that are privately operated and capitalized for the purpose of providing venture capital financing to eligible small business concerns. While the Small Business Administration can provide up to $4.00 of Federal funding for each $1.00 of private capital, the program presently has an approximately equal mix of government and private dollars.

POINT-BY-POINT DISCUSSION

The Wall Street Journal, in its article of June 8, 1982, cited a number of valid criticisms of the way the SBIC program has been administered. It is important to note that the problems cited are the product of previous program managers and which, for the most part, have been addressed in corrective action during the present Administration. It should also be remembered that all of these findings were made by SBA personnel and remedied through administrative action and/or civil, rather than criminal, justice procedures. The following is a point-by-point discussion of the Wall Street Journal's major criticisms and corresponding corrective actions by the Small Business Administration which were initiated and in some cases finalized prior to their discovery and disclosure by that newspaper.

1. The financing to the New York City pornographic theater was made in 1977, cited in subsequent examinations by SBA's Inspector General, and repaid as a result of pressure by SBA in May, 1981. It should be noted that SBA's attorneys held that the agency had no legal remedy available because the business was licensed and operating legitimately under New York laws. In January 1982, SBA transmitted proposed regulations to the Office of Management and Budget which, among other things, tighten the prohibitions on financing activities that are illegal or contrary to the public interest. However, a more specific ban would, in all likelihood, be unenforceable in the courts.

2. The $45,100 financing provided by a Minority Enterprise Small Business Investment Company (NESBIC) to Donald Nixon (a nephew of the former President) violated SBA conflict of interest regulations which define him as an associate of the SBIC. The matter was disclosed in an examination report dated May 8, 1981 from SBA's Inspector General and the SBIC was directed to divest of the financing. As of March 11, 1982, the SBIC was advised by SBA that no further assistance would be provided until the matter is resolved.

3. The financings of wealthy minority group businesses and professions by MESBICs are permissible because the existing statutory language bases eligibility on either social or economic disadvantage. Although SBA's attorneys have been working since early this year on a better interpretation of the enabling statute, the best solution may ultimately be a legislative change to a social and economic disadvantage standard as used with other minority assistance programs.

4. There was no "loan" to Paul Newman, Burt Reynolds, Norman Lear and the other investors in a New York based SBIC which also has a California office. The 58 stockholders of this SBIC each own less than five percent of its stock and together paid in $6,700,000 of private capital. They subsequently received $15,000,000 of SBA funding at the prevailing Federal financing bank rate, which together with their private capital, is being used to finance small businesses. It should be noted that SBA regulations presently require SBICs to have private capital of at least $500,000. The investors therefore are often wealthy and sometimes well known individuals, large businesses, or financial institutions who view the program as an effective conduit for investing their funds in small businesses.

5. Commerce Capital Corporation, a Milwaukee-based SBIC, was in fact a case of very poor management. The licensee owed SBA nearly $15 million and has been in liquidation since 1978. The gay Turkish bath and El Salvador gold mine were assets it acquired in liquidation and not direct financings. SBA's losses will probably finalize at 50 cents on the dollar.

In summary, SBA is aware of some serious regulatory problems involving perhaps 25 percent of its SBIC licensees. SBA has already taken some concrete steps to tight-

en the program to reduce both our financial risk and the probability that SBIC's will take actions detrimental to the best interests of our small business clients. Our licensing process has been changed to upgrade the management criteria for prospective SBIC management. Coupled with this, we are now using the resources of our field offices to help screen potential SBICs principals.

Just within the past few weeks, our Office of General Counsel has begun to institute administrative proceedings against SBIC in violation of the law and regulations. Heretofore, our operations people in the Investment Division have not had that tool at their disposal in a practical sense.

In the next few weeks, SBA will send to the Federal Register a notice of proposed rulemaking that would completely revise the SBIC regulations. These will, we believe, clarify some parts of the regulations which because of ambiguity have been sources of violations. One part of this revision which we know will be of help is the strengthened redefinition of SBIC inactivity. Although an analysis of the Inspector General's Management Advisory Report (MAR) on SBIC inactivity and idle funds includes that the MAR does not demonstrate a broad or deep idle funds problem in the SBIC industry, we do feel that a tighter inactivity regulation will be useful in those few cases where inactivity does exist and cannot now be dealt with.

You are aware of the proposal to lift the mandatory annual audit requirements of the Office of Inspector General. This was proposed so that the resources of the Office of Regulatory Audits can be used more efficiently in examining those few SBICs that are violation prone. Legislation to implement this recommendation has been reported by the Senate Committee on Small Business.

The following SBIC program priorities are underway:

1. Closer scrutiny of licensing and transfer applications;
2. Tighter credit controls regarding leveraging;
3. Proposed regulations to strengthen the program;
4. Improved regulatory oversight and tracking of violations; and,
5. Greater emphasis on promoting and improving the SBIC delivery system.

The SBA has also taken the following additional actions.

In March of this year the Agency testified before your Committee against a bill, H.R. 5302, that in our opinion would create a host of new problems for the SBIC program. A copy of our testimony is attached.

The Agency has also testified against the increase in funding to SBICs and MESBICs that would be authorized in H.R. 6086, and S. 2408. These bills would increase funding beyond a level that we feel to be either necessary or prudent. The levels authorized in these bills threaten the President's efforts to mitigate the adverse effects of Federal intervention in credit markets. SBA is also opposed to another section of H.R. 6086 that under certain circumstances would permit government funds in lieu of private capital for MESBIC leveraging purposes. Enactment of such a change would be contrary to the whole concept of the SBIC program, which is to encourage public-private partnership.

Finally, Section 301(d) of the Small Business Investment Act of 1958 currently permits the financings of wealthy minority group businesses and professions by MESBICs because the statutory language bases eligibility on either social or economic disadvantage. SBA supports a legislative change to a social and economic disadvantage standard as used with other minority assistance programs.

Since 1958, when the SBIC program began, 50,000 small business concerns have received disbursements of over $4.0 billion, resulting in $11.3 billion dollar-years of financial assistance to small concerns. Last year 2,329 small businesses received $387.1 million of disbursements from SBICs. SBA has tracked several probability samples of small business recipients of SBIC financing through their life cycle in the SBIC portfolio. We have found substantial improvements in the employment, sales, profits, and assets of these client firms. The sample of 100 small portfolio companies taken in 1973 shows that they increased employment, after deducting the effects of the failed companies, by 1,866 jobs after six years. These 100 firms received initial SBIC disbursements of $12.2 million and benefited from an estimated $40 million dollar years of SBIC financing.

Obviously the "horror stories" receive the greatest attention. In spite of the notoriety surrounding these cases, it should be remembered that it would be both unjust and wrong to place the violations of a few undesirable SBIC operators on all of the well operated SBICs. There are a few bad SBICs which are harmful to the program and they will be eliminated from the program as quickly as possible consistent with due process.

The great majority of SBIC operators utilize their own management abilities and capital in combination with SBA's funding and administration to provide venture capital assistance to small business as stipulated in the Small Business Investment

Act of 1958. Since the inception of the program, actual direct loss of government funds has amounted to only 6.7 percent, which has been offset many times over by the economic results, tax revenues, and jobs creation of the small business concerns successfully assisted by this program. SBA Administrator James C. Sanders, in his letter to the editor of the Wall Street Journal, published June 21, 1982, states this Agency's resolve to strengthen the SBIC program and purge from it those whose actions tarnish its image.

HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS,
Washington, D.C., June 30, 1982.

Hon. JAMES C. SANDERS,
Administrator, Small Business Administration,
Washington, D.C.

DEAR MR. ADMINISTRATOR: The following questions are submitted as additional inquiries pursuant to the SBA/SBIC Subcommittee of the House Committee on Small Business hearing of June 16, 1982. Please respond as soon as possible and provide documentation where requested.

1. What regulations have been drafted to provide for applications for 1 year extensions to Fixed Program Participation Terms? When will staff begin to review and determine extension requests?

2. What policy has been formulated, and on what statutory basis, for dealing with 8(a) companies judged "other than small" at any stage of the administrative process?

3. On what date will a data collection system for the collection and retrieval of information on 8(a) and non 8(a) minority business enterprises be finalized and installed?

What use will be made of studies commissioned by SBA to design a system, i.e. "A Promise Fulfilled" by Advance, Inc.?

4. What is the current status of contract support to non 8(a) minority business enterprises, that is dollar volume, number of contracts, number of firms, procuring agencies, and SBA manhours devoted to marketing, contract development, management assistance, etc?

5. I have received correspondence from 8(a) companies informing me that levels of contract support are being reduced across the board without regard to their individual company projections or objectives. Respond.

6. In the area of personnel, explain to me what the Agency is doing in regard to RIF's, transfers and encouragement of "early outs" in the MSB-COD division?

Your immediate attention to this matter would be appreciated.

Sincerely,

PARREN J. MITCHELL, *Chairman.*

JULY 23, 1982.

Hon. PARREN J. MITCHELL,
Chairman, Committee on Small Business,
House of Representatives, Washington, D.C.

DEAR MR. CHAIRMAN: Your letter to me of June 30, 1982, submitted six additional inquiries pursuant to hearings of June 16, 1982, of the Small Business Administration/Small Business Investment Company Subcommittee of the House Committee on Small Business.

Enclosed please find my responses. Please let we know if any additional information will be helpful.

Sincerely,

JAMES C. SANDERS, *Administrator.*

Question 1. What regulations have been drafted to provide for applications for 1 year extensions to Fixed Program Participation Terms? When will staff begin to review and determine extension requests?

Answer. The regulations published on November 23, 1981, 13 CFR Section 124.1-1(f), set forth the criteria that SBA will use in negotiating extensions of Fixed Program Participation Terms. We are in the process of completing Standard Operating Procedures regarding the implementation of those provisions. As soon as those procedures are finalized, they will be transmitted to the field.

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Question 2. What policy has been formulated, and on what statutory basis, for dealing with 8(a) companies judged "other than small" at any stage of the administrative process?

Answer. As submitted in my letter to you of June 29, 1982, a copy of which I attach for your convenience, at the present time we believe that we must be guided by the determination of the General Accounting Office in the Matter of Computer Data Systems, Inc. Hence, until such time as the issue may be otherwise clarified, we have instructed our field office personnel to refrain from executing any new contracts for the benefit of companies found "other than small."

[The letter referred to above appears as appendix A at the end of this series of questions.]

Question 3. On what date will a data collection system for the collection and retrieval of information on 8(a) and non-8(a) minority business enterprises be finalized and installed? What use will be made of studies commissioned by SBA to design a system, i.e., "A Promise Fulfilled," by Advance, Inc.?

Answer. Since data collection and the perfection of designs for automating that effort are continuing processes, we have fixed no date for finalizing them. Meanwhile, however, we have already installed relevant equipment and have developed and implemented useful programs for assembling our management information system and its data base. Suggestions like those of Advance, Inc., are helping us to design ways for data collection to support efforts to: (1) increase total support for 8(a) firms despite diminishing administrative resources; (2) improve distribution of requirement support to all 8(a) firms; (3) improve our staff's productivity, effectiveness and capacity to respond; and (4) generate useful progress reports.

Question 4. What is the current status of contract support to non-8(a) minority business enterprises?

Answer. A. Dollar Volume: Through the first quarter of FY 82, non-8(a) minority business enterprises received $286.1 million in contract support from Federal agencies, which amounts to 38.8% of total Federal procurement for minority firms. For FY 81, this figure was $1.49 billion (46.1%), and for FY 80, this amount was $1.44 billion (54.9%). This information was derived from Federal Procurement Data Services (FPDS) reports, copies of which are attached hereto.

B. Number of Contracts: Through the first quarter of FY 82, non-8(a) minority business enterprises received 67,639 contract awards from Federal agencies, which is 95.2% of all Federal contracts awarded to minority firms. for FY 81, this total was 386,175 (88.1%), and for FY 80 this total was 322,336 (87.1%). This information was calculated from FPDS reports, copies of which are attached hereto.

C. Number of Firms: Data maintained by FPDS does not include information pertaining to the number of minority firms awarded non-8(a) contracts.

D. Procuring Agencies: The attached FPDS reports give agency-specific data in this regard, including percentages of minority to total agency procurement, and percentages of 8(a) to total agency minority procurement.

E. SBA Manhours Devoted to Marketing, Contract Development, Management Assistance, Etc.: While the records in this respect are inexact, our best estimate is that the Office of Procurement and Technology Assistance devoted 15,790 manhours to assisting non-8(a) minority firms in FY 81, and 11,995 manhours through three quarters of FY 82. For Management Assistance, it is not possible to determine the number of SBA manhours devoted to providing management assistance to non-8(a) minority clients because of the variety of resources and techniques utilized to counsel and train clients. However, for FY 82 through June 25, 1982, the Office of Management Assistance conducted 31,019 counseling actions with non-8(a) minority firms, and 57,089 non-8(a) minority clients have attended SBA training courses. For FY 81, these numbers were 56,431 for counseling, and 86,433 for training.

No records have, in the past, been maintained at SBA with regard to SBA manhours devoted to assistance to non-8(a) firms by MSB&COD program units responsible for marketing assistance, contract assistance, and 7(j) assistance. However, beginning with 1982 contracts for 7(j) assistance, reporting will be broken out in 8(a)/non-8(a) categories. These 1982 contracts have only recently been executed, thus, this information is net yet available.

[The documents referred to above appear as appendix B at the end of this series of questions.]

Question 5. I have received correspondence from 8(a) companies informing me that levels of contract support are being reduced across the board without regard to their individual company projections or objectives. Respond.

Answer. We are unaware of any arbitrary across the board reductions in support levels. For 8(a) companies, support levels are established based upon the financial, production and management capabilities of individual firms, adjusted by the known

level of requirements available within the particular business activity of each firm. We would certainly appreciate an opportunity to review the particular cases to which you refer, so that we may examine reasons for the reductions.

Question 6. In the area of personnel, explain to me what the Agency is doing in regard to RIFs, transfers and encouragement of "early outs" in the MSB–COD division.

Answer. To date, the Office of Minority Small Business and Capital Ownership Development has experienced no reductions in force (RIFs). There were inter-office transfers from the Central Office to the Washington District Office for the purpose of accommodating an unusually large portfolio. It is not contemplated that there will be any additional transfers of this nature. There were five persons that chose early retirement, and at this date there appear to be no others intending to take "early outs."

At this point in time, we cannot predict whether future budgetary constraints will require RIFs for MSB–COD (as well as other Small Business Administration offices), in order to meet overall personnel ceilings.

APPENDIX A

U.S. SMALL BUSINESS ADMINISTRATION,
Washington, D.C., June 29, 1982.

Hon. PARREN J. MITCHELL,
Chairman, Committee on Small Business,
House of Representatives, Washington, D.C.

DEAR MR. CHAIRMAN: Our initial response to your May 11, 1982, letter concerning the recent U.S. District Court decision in the case of *Cal Western Packaging Corp.* v. *Freddie Collins, et al.* noted that we were in the process of evaluating this decision and that we would advise you further on this issue.

On June 16, 1982, the Comptroller General of the United States issued a decision on this same issue in the matter of Computer Data Systems, Inc. This decision stated that, "although a firm cannot be terminated from the 8(a) program without a hearing on the record, the Small Business Administration (SBA) must suspend from contracting any 8(a) firm found to be other than a small business concern in the course of an SBA size determination proceeding."

We are requesting reconsideration of this decision from the Comptroller General. Pending such reconsideration, however, it is our view that this General Accounting Office decision effectively circumscribes for the present any other option for SBA on this issue. Accordingly, in the absence of further direction or clarification from a Court or GAO, or amending legislation, we intend to suspend further 8(a) contract support for the present to any concern found not within SBA's size standards under the applicable SBA Regulations, 13 CFR Part 121.

Sincerely,

JAMES C. SANDERS,
Administrator.

APPENDIX B.—FEDERAL PROCUREMENT DATA SYSTEM—FEDERAL CONTRACT ACTIONS OVER $10,000 TO MINORITY AND SMALL DISADVANTAGED BUSINESSES [1] BY EXECUTIVE DEPARTMENT AND AGENCY

[Dollar amounts in thousands, fiscal year 1982, 1st quarter]

	Total agency	Total minority disadvantaged		Small minority		Large minority		8(a) disadvantaged	
		Amount	Percent [2]	Amount	Percent [3]	Amount	Percent [3]	Amount	Percent [3]
Total Federal	$30,639,921	$695,477	2.3	$238,599	34.3	$7,874	1.1	$449,004	64.6
Executive Office of the President	2,528	57	2.3	30	52.6	0	0	27	47.4
Department of Agriculture	364,784	13,011	3.6	2,266	17.4	230	1.8	10,515	80.8
Department of Commerce	26,138	1,968	7.5	51	2.6	63	3.2	1,854	94.2
Department of Defense	23,490,276	597,672	2.5	214,314	35.9	2,242	.4	381,116	63.8
Department of Education	23,097	6,823	29.5	1,421	20.8	0	0	5,402	79.2
Department of Energy	3,693,355	7,709	.2	655	8.5	2,001	26.0	5,053	65.5
Department of Health and Human Services	131,243	−4,608	3.5	−6,882	49.3	478	10.4	1,796	39.0
Department of Housing and Urban Development	8,074	130	1.6	130	0	0	0	0	0
Department of the Interior	171,328	7,430	4.3	4,550	61.2	946	12.7	1,934	26 0
Department of Justice	25,404	555	2.2	283	51.0	31	5.6	241	43.4
Department of Labor	61,346	3,225	5.3	2,138	66.3	0	0	1,087	33.7
Department of State	15,865	1,066	6.7	441	41.4	568	53.3	57	5.3
Department of Transportation	280,625	8,161	2.9	1,138	13.9	184	2.3	6,839	83.8
Department of the Treasury	66,273	1,688	2.5	511	30.3	0	0	1,177	69.7
ACTION	5,467	185	3.4	146	78.9	0	0	39	21.1
Administrative Conference of the United States	0	0	0	0	0	0	0	0	0
Agency for International Development	13,551	1,143	8.4	377	33.0	0	0	766	67.0
American Battle Monuments Commission	0	0	0	0	0	0	0	0	0
Board for International Broadcasting	0	0	0	0	0	0	0	0	0
Civil Aeronautics Board	1,320	344	26.1	0	0	0	0	344	0
Commission on Civil Rights	0	0	0	0	0	0	0	0	0
Commodity Futures Trading Commission	2,683	0	0	0	0	0	0	0	0
Consumer Product Safety Commission	370	197	53.2	0	0	0	0	197	0
Environmental Protection Agency	29,737	2,828	9.5	303	10.7	0	0	2,525	89.3
Equal Employment Opportunity Commission	9,404	410	4.4	0	0	410	0	0	0
Federal Communications Commission	604	0	0	0	0	0	0	0	0
Federal Election Commission	18	0	0	0	0	0	0	0	0
Federal Emergency Management Agency	8,136	159	2.0	51	32.1	0	0	108	67.9
Federal Maritime Commission	85	0	0	0	0	0	0	0	0

APPENDIX B.—FEDERAL PROCUREMENT DATA SYSTEM—FEDERAL CONTRACT ACTIONS OVER $10,000 TO MINORITY AND SMALL DISADVANTAGED BUSINESSES [1] BY EXECUTIVE DEPARTMENT AND AGENCY—Continued

[Dollar amounts in thousands, fiscal year 1982, 1st quarter]

	Total agency	Total minority disadvantaged		Small minority		Large minority		8(a) disadvantaged	
		Amount	Percent [2]	Amount	Percent [3]	Amount	Percent [3]	Amount	Percent [3]
Federal Mediation and Conciliation Service	0	0	0	0	0	0	0	0	0
Federal Mine Safety and Health Review Commission	0	0	0	0	0	0	0	0	0
Federal Trade Commission	2,328	85	3.7	19	22.4	0	0	66	77.6
General Services Administration	446,957	11,013	2.5	4,560	41.4	399	3.6	6,054	55.0
International Communications Agency	3,282	56	1.7	0	0	56	0	0	0
International Trade Commission	165	0	0	0	0	0	0	0	0
Interstate Commerce Commission	2,297	105	4.6	45	42.9	0	0	60	57.1
Merit Systems Protection Board	0	0	0	0	0	0	0	0	0
National Aeronautics and Space Administration	1,132,330	19,145	1.7	4,556	23.8	50	.3	14,539	75.9
National Capital Planning Commission	0	0	0	0	0	0	0	0	0
National Foundation on Arts and Humanities	0	0	0	0	0	0	0	0	0
National Gallery of Art	286	0	0	0	0	0	0	0	0
National Labor Relations Board	903	0	0	0	0	0	0	0	0
National Mediation Board	126	0	0	0	0	0	0	0	0
National Science Foundation	41,964	25	.1	25	0	0	0	0	0
National Transportation Safety Board	690	0	0	0	0	0	0	0	0
Nuclear Regulatory Commission	6,359	404	6.4	0	0	0	0	404	0
Occupational Safety and Health Review Commission	141	0	0	0	0	0	0	0	0
Office of Personnel Management	18,307	0	0	0	0	0	0	0	0
Peace Corps	0	0	0	0	0	0	0	0	0
Pennsylvania Avenue Development Corporation	2,999	225	7.5	225	0	0	0	0	0
Railroad Retirement Board	1,160	0	0	0	0	0	0	0	0
Securities and Exchange Commission	2,244	140	6.2	79	56.4	61	43.6	0	0
Selective Service System	447	50	11.2	0	0	0	0	50	0
Small Business Administration	5,319	195	3.7	0	0	0	0	195	0
Smithsonian Institution	6,185	1,255	20.3	255	20.3	0	0	1,000	79.7
Tennessee Valley Authority	324,614	506	.2	506	0	0	0	0	0
U.S. Arms Control and Disarmament Agency	0	0	0	0	0	0	0	0	0
Veterans' Administration	209,089	12,120	5.8	6,406	52.9	155	1.3	5,559	45.9
Water Resources Council	18	0	0	0	0	0	0	0	0

[1] Concerns owned by minority women are included as minority businesses and as woman-owned businesses in special analysis 10.1. [2] Percent of total agency. [3] Percent of total minority/disadvantaged businesses.

FEDERAL PROCUREMENT DATA SYSTEM—FEDERAL CONTRACT ACTIONS OVER $10,000 TO MINORITY AND SMALL DISADVANTAGED BUSINESSES [1] BY EXECUTIVE DEPARTMENT AND AGENCY

[Fiscal year 1982, 1st quarter]

	Total agency actions	Total minority disadvantaged		Small minority		Large minority		8(a) disadvantaged	
		Actions	Percent [2]	Actions	Percent [3]	Actions	Percent [3]	Actions	Percent [3]
Total Federal	96,415	3,482	3.6	1,773	50.9	178	5.1	1,531	44.0
Executive Office of the President	56	4	7.1	2	50.0	0	0	2	50.0
Department of Agriculture	2,303	131	5.7	54	41.2	13	9.9	64	48.9
Department of Commerce	352	21	6.0	2	9.5	2	9.5	17	81.0
Department of Defense	68,029	1,968	2.9	1,134	57.6	76	3.9	758	38.5
Department of Education	45	11	24.4	4	36.4	0	0	7	63.6
Department of Energy	1,047	51	4.9	15	29.4	1	2.0	35	68.6
Department of Health and Human Services	1,400	148	10.6	111	75.0	14	9.5	23	15.5
Department of Housing and Urban Development	56	2	3.6	2	0	0	0	0	0
Department of the Interior	1,224	129	10.5	55	42.6	24	18.6	50	38.8
Department of Justice	428	13	3.0	7	53.8	1	7.7	5	38.5
Department of Labor	375	43	11.5	18	41.9	0	0	25	58.1
Department of State	156	22	14.1	4	18.2	16	72.7	2	9.1
Department of Transportation	927	113	12.2	36	31.9	1	.9	76	67.3
Department of the Treasury	414	15	3.6	4	26.7	0	0	11	73.3
ACTION	63	3	4.8	1	33.3	0	0	2	66.7
Administrative Conference of the United States	0	0	0	0	0	0	0	0	0
Agency for International Development	44	4	9.1	2	50.0	0	0	2	50.0
American Battle Monuments Commission	0	0	0	0	0	0	0	0	0
Board for International Broadcasting	0	0	0	0	0	0	0	0	0
Civil Aeronautics Board	23	1	4.3	0	0	0	0	1	0
Commission on Civil Rights	0	0	0	0	0	0	0	0	0
Commodity Futures Trading Commission	20	0	0	0	0	0	0	0	0
Consumer Product Safety Commission	16	4	25.0	0	0	0	0	4	0
Environmental Protection Agency	279	23	8.2	5	21.7	0	0	18	78.3
Equal Employment Opportunity Commission	74	3	4.1	0	0	3	0	0	0
Federal Communications Commission	12	0	0	0	0	0	0	0	0

FEDERAL PROCUREMENT DATA SYSTEM—FEDERAL CONTRACT ACTIONS OVER $10,000 TO MINORITY AND SMALL DISADVANTAGED BUSINESSES [1] BY EXECUTIVE DEPARTMENT AND AGENCY—Continued

[Fiscal year 1982, 1st quarter]

	Total agency actions	Total minority disadvantaged		Small minority		Large minority		8(a) disadvantaged	
		Actions	Percent [2]	Actions	Percent [3]	Actions	Percent [3]	Actions	Percent [3]
Federal Election Commission	1	0	0	0	0	0	0	0	0
Federal Emergency Management Agency	43	6	14.0	4	66.7	0	0	2	33.3
Federal Maritime Commission	3	0	0	0	0	0	0	0	0
Federal Mediation and Conciliation Service	0	0	0	0	0	0	0	0	0
Federal Mine Safety and Health Review Commission	0	0	0	0	0	0	0	0	0
Federal Trade Commission	53	2	3.8	1	50.0	0	0	1	50.0
General Services Administration	7,761	204	2.6	101	49.5	8	3.9	95	46.6
International Communication Agency	75	4	5.3	0	0	4	0	0	0
International Trade Commission	6	0	0	0	0	0	0	0	0
Interstate Commerce Commission	23	2	8.7	1	50.0	0	0	1	50.0
Merit Systems Protection Board	0	0	0	0	0	0	0	0	0
National Aeronautics and Space Administration	4,071	365	9.0	92	25.2	7	1.9	266	72.9
National Capital Planning Commission	0	0	0	0	0	0	0	0	0
National Foundation on Arts and Humanities	0	0	0	0	0	0	0	0	0
National Gallery of Art	10	0	0	0	0	0	0	0	0
National Labor Relations Board	13	0	0	0	0	0	0	0	0
National Mediation Board	10	0	0	0	0	0	0	0	0
National Science Foundation	46	2	4.3	2	0	0	0	0	0
National Transportation Safety Board	4	0	0	0	0	0	0	0	0
Nuclear Regulatory Commission	66	3	4.5	0	0	0	0	0	0
Occupational Safety and Health Review Commission	4	0	0	0	0	0	0	3	0
Office of Personnel Management	29	0	0	0	0	0	0	0	0
Peace Corps	0	0	0	0	0	0	0	0	0
Pennsylvania Avenue Development Corporation	8	2	25.0	2	0	0	0	0	0
Railroad Retirement Board	23	0	0	0	0	0	0	0	0
Securities and Exchange Commission	50	7	14.0	5	71.4	2	28.6	0	0
Selective Service System	10	1	10.0	0	0	0	0	1	0
Small Business Administration	68	2	2.9	0	0	0	0	2	0
Smithsonian Institution	60	3	5.0	1	33.3	0	0	2	66.7
Tennessee Valley Authority	984	7	.7	7	0	0	0	0	0
U.S. Arms Control and Disarmament Agency	0	0	0	0	0	0	0	0	0

FEDERAL PROCUREMENT DATA SYSTEM—FEDERAL CONTRACT ACTIONS OVER $10,000 TO MINORITY AND SMALL DISADVANTAGED BUSINESSES [1] BY EXECUTIVE DEPARTMENT AND AGENCY—Continued

[Fiscal year 1982, 1st quarter]

	Total agency actions	Total minority disadvantaged		Small minority		Large minority		8(a) disadvantaged	
		Actions	Percent [2]	Actions	Percent [3]	Actions	Percent [3]	Actions	Percent [3]
Veterans' Administration	5,650	163	2.9	101	62.0	6	3.7	56	34.4
Water Resources Council	1	0	0	0	0	0	0	0	0

[1] Concerns owned by minority women are included as minority businesses and as woman-owned businesses in special analysis 10.1.
[2] Percent of total agency.
[3] Percent of total minority/disadvantaged businesses.

FEDERAL PROCUREMENT DATA SYSTEM—FEDERAL CONTRACT ACTIONS $10,000 OR LESS AND SUBCONTRACTING TO MINORITY AND SMALL DISADVANTAGED BUSINESSES [1] BY EXECUTIVE DEPARTMENT AND AGENCY

[Dollar amounts in thousands, fiscal year 1982, 1st quarter]

	Total agency	Total minority disadvantaged		8(a) disadvantaged prime		All other minority prime		Subcontract [4]	
		Amount	Percent [2]	Amount	Percent [3]	Amount	Percent [3]	Amount	Percent [3]
Total Federal	$1,929,899	$42,215	2.2	$2,559	6.1	36,202	85.8	$3,454	8.2
Executive Office of the Presidential	640	5	.8	5	100.0	0	0	0	0
Department of Agriculture	61,765	900	1.5	45	5.0	838	93.1	17	1.9
Department of Commerce	10,879	281	2.6	72	25.6	187	66.5	22	7.8
Department of Defense	1,203,607	22,574	1.9	1,324	5.9	21,250	94.1	0	0
Department of Education	645	6	.9	0	0	6	100.0	0	0
Department of Energy	3,702	1,009	27.3	0	0	23	2.3	986	97.7
Department of Health and Human Services	57,037	1,067	1.9	89	8.3	978	91.7	0	0
Department of Housing and Urban Development	3,784	37	1.0	5	13.5	32	86.5	0	0
Department of the Interior	59,983	1,732	2.9	0	0	1,732	100.0	0	0
Department of Justice	32,039	977	3.0	6	.6	971	99.4	0	0
Department of Labor	8,932	1,848	20.7	276	14.9	1,481	80.1	91	4.9
Department of State	2,873	1,389	48.3	6	.4	1,383	99.6	0	0
Department of Transportation	53,164	3,402	6.4	128	3.8	980	28.8	2,294	67.4

FEDERAL PROCUREMENT DATA SYSTEM—FEDERAL CONTRACT ACTIONS $10,000 OR LESS AND SUBCONTRACTING TO MINORITY AND SMALL DISADVANTAGED BUSINESSES [1] BY EXECUTIVE DEPARTMENT AND AGENCY—Continued

[Dollar amounts in thousands, fiscal year 1982, 1st quarter]

	Total agency	Total minority disadvantaged		8(a) disadvantaged prime		All other minority prime		Subcontract [4]	
		Amount	Percent [2]	Amount	Percent [3]	Amount	Percent [3]	Amount	Percent [3]
Department of the Treasury	34,432	957	2.8	83	8.7	841	87.9	33	3.4
ACTION	2,537	1	0	0	0	1	100.0	0	0
Administrative Conference of the United States	11	0	0	0	0	0	0	0	0
Agency for International Development	0	0	0	0	0	0	0	0	0
American Battle Monuments Commission	0	0	0	0	0	0	0	0	0
Board for International Boardcasting	9	0	0	0	0	0	0	0	0
Civil Aeronautics Board	366	0	0	0	0	0	0	0	0
Commission on Civil Rights	110	19	17.3	0	0	19	100.0	0	0
Commodity Futures Trading Commission	258	0	0	0	0	0	0	0	0
Consumer Product Safety Commission	337	0	0	0	0	0	0	0	0
Environmental Protection Agency	3,890	118	3.0	0	0	109	92.4	9	7.6
Equal Employment Opportunity Commission	673	0	0	0	0	0	0	0	0
Federal Communications Commission	247	0	0	0	0	0	0	0	0
Federal Election Commission	62	0	0	0	0	0	0	0	0
Federal Emergency Management Agency	3,713	18	.5	0	0	18	100.0	0	0
Federal Maritime Commission	69	0	0	0	0	0	0	0	0
Federal Mediation and Conciliation Service	131	0	0	0	0	0	0	0	0
Federal Mine Safety and Health Review Commission	0	0	0	0	0	0	0	0	0
Federal Trade Commission	829	4	.5	0	0	4	100.0	0	0
General Services Administration	100,285	2,112	2.1	286	13.5	1,826	86.5	0	0
International Communication Agency	3,305	74	2.2	0	0	74	100.0	0	0
International Trade Commission	272	8	2.9	0	0	8	100.0	0	0
Interstate Commerce Commission	201	6	3.0	0	0	6	100.0	0	0
Merit Systems Protection Board	0	0	0	0	0	0	0	0	0
National Aeronautics and Space Administration	24,338	291	1.2	116	39.9	175	60.1	0	0
National Capital Planning Commission	30	3	10.0	0	0	3	100.0	0	0
National Foundation on Arts and Humanities	124	10	8.1	0	0	10	100.0	0	0
National Gallery of Art	551	0	0	0	0	0	0	0	0
National Labor Relations Board	206	0	0	0	0	0	0	0	0
National Mediation Board	15	0	0	0	0	0	0	0	0

FEDERAL PROCUREMENT DATA SYSTEM—FEDERAL CONTRACT ACTIONS $10,000 OR LESS AND SUBCONTRACTING TO MINORITY AND SMALL DISADVANTAGED BUSINESSES [1] BY EXECUTIVE DEPARTMENT AND AGENCY—Continued

[Dollar amounts in thousands, fiscal year 1982, 1st quarter]

	Total agency	Total minority disadvantaged		8(a) disadvantaged prime		All other minority prime		Subcontract [4]	
		Amount	Percent [2]	Amount	Percent [3]	Amount	Percent [3]	Amount	Percent [3]
National Science Foundation	706	29	4.1	0	0	27	93.1	2	6.9
National Transportation Safety Board	0	0	0	0	0	0	0	0	0
Nuclear Regulatory Commission	1,383	21	1.5	0	0	21	100.0	0	0
Occupational Safety and Health Review Commission	43	0	0	0	0	0	0	0	0
Office of Personnel Management	1,665	25	1.5	0	0	25	100.0	0	0
Peace Corps	0	0	0	0	0	0	0	0	0
Pennsylvania Avenue Development Corporation	120	25	20.8	0	0	25	100.0	0	0
Railroad Retirement Board	264	0	0	0	0	0	0	0	0
Securities and Exchange Commission	797	0	0	0	0	0	0	0	0
Selective Service System	239	0	0	0	0	0	0	0	0
Small Business Administration	3,782	68	1.8	0	0	68	100.0	0	0
Smithsonian Institution	3,135	104	3.3	0	0	104	100.0	0	0
Tennessee Valley Authority	32,819	471	1.4	0	0	471	100.0	0	0
U.S. Arms Control and Disarmament Agency	74	2	2.7	0	0	2	100.0	0	0
Veterans' Administration	208,821	2,622	1.3	118	4.5	2,504	95.5	0	0
Water Resources Council	0	0	0	0	0	0	0	0	0

[1] Concerns owned by minority women are included as minority businesses and as woman-owned businesses in special analysis 10.1.
[2] Percent of total agency.
[3] Percent of total minority/disadvantaged businesses.
[4] From prime contracts over $500,000.

FEDERAL PROCUREMENT DATA SYSTEM—FEDERAL CONTRACT ACTIONS $10,000 OR LESS AND SUBCONTRACTING TO MINORITY AND SMALL DISADVANTAGED BUSINESSES [1] BY EXECUTIVE DEPARTMENT AND AGENCY

[Fiscal year 1982, 1st quarter]

	Total agency actions	Total minority disadvantaged		8(a) disadvantaged prime		All other minority prime		Subcontract [4]	
		Actions	Percent [2]	Actions	Percent [3]	Amount	Percent [3]	Amount	Percent [3]
Total Federal	2,866,089	67,558	2.4	1,870	2.8	65,688	97.2	0	0
Executive Office of the President	316	1	.3	1	100.0	0	0	0	0
Department of Agriculture	143,822	1,344	.9	31	2.3	1,313	97.7	0	0
Department of Commerce	9,417	190	2.0	28	14.7	162	85.3	0	0
Department of Defense	1,692,571	36,841	2.2	1,300	3.5	35,541	96.5	0	0
Department of Education	459	3	.7	0	0	3	100.0	0	0
Department of Energy	5,026	20	.4	0	0	20	100.0	0	0
Department of Health and Human Services	96,235	889	.9	254	28.6	635	71.4	0	0
Department of Housing and Urban Development	2,402	36	1.5	1	2.8	35	97.2	0	0
Department of the Interior	106,350	2,385	2.2	0	0	2,385	100.0	0	0
Department of Justice	101,605	12,601	12.4	4	0	12,597	100.0	0	0
Department of Labor	8,411	1,199	14.3	20	1.7	1,179	98.3	0	0
Department of State	2,079	887	42.7	2	.2	885	99.8	0	0
Department of Transportation	59,235	1,077	1.8	49	4.5	1,028	95.5	0	0
Department of the Treasury	25,308	902	3.6	9	1.0	893	99.0	0	0
ACTION	2,007	1	0	0	0	1	100.0	0	0
Administrative Conference of the United States	63	0	0	0	0	0	0	0	0
Agency for International Development	0	0	0	0	0	0	0	0	0
American Battle Monuments Commission	0	0	0	0	0	0	0	0	0
Board for International Broadcasting	9	0	0	0	0	0	0	0	0
Civil Aeronautics Board	150	0	0	0	0	0	0	0	0
Commission on Civil Rights	211	32	15.2	0	0	32	100.0	0	0
Commodity Futures Trading Commission	290	0	0	0	0	0	0	0	0
Consumer Product Safety Commission	163	0	0	0	0	0	0	0	0
Environmental Protection Agency	5,972	141	2.4	0	0	141	100.0	0	0
Equal Employment Opportunity Commission	453	0	0	0	0	0	0	0	0
Federal Communications Commission	275	0	0	0	0	0	0	0	0
Federal Election Commission	136	0	0	0	0	0	0	0	0
Federal Emergency Management Agency	1,053	7	.7	0	0	7	100.0	0	0
Federal Maritime Commission	55	0	0	0	0	0	0	0	0

FEDERAL PROCUREMENT DATA SYSTEM—FEDERAL CONTRACT ACTIONS $10,000 OR LESS AND SUBCONTRACTING TO MINORITY AND SMALL DISADVANTAGED BUSINESSES [1] BY EXECUTIVE DEPARTMENT AND AGENCY—Continued

[Fiscal year 1982, 1st quarter]

	Total agency actions	Total minority disadvantaged		8(a) disadvantaged prime		All other minority prime		Subcontract [4]	
		Actions	Percent [2]	Actions	Percent [3]	Amount	Percent [3]	Amount	Percent [3]
Federal Mediation and Conciliation Service	103	0	0	0	0	0	0	0	0
Federal Mine Safety and Health Review Commission	0	0	0	0	0	0	0	0	0
Federal Trade Commission	862	3	.3	0	0	3	100.0	0	0
General Services Administration	54,653	1,055	1.9	78	7.4	977	92.6	0	0
International Communication Agency	5,365	40	.7	0	0	40	100.0	0	0
International Trade Commission	395	2	.5	0	0	2	100.0	0	0
Interstate Commerce Commission	200	11	5.5	0	0	11	100.0	0	0
Merit Systems Protection Board	0	0	0	0	0	0	0	0	0
National Aeronautics and Space Administration	17,536	269	1.5	18	6.7	251	93.3	0	0
National Capital Planning Commission	56	3	5.4	0	0	3	100.0	0	0
National Foundation on Arts and Humanities	262	13	5.0	0	0	13	100.0	0	0
National Gallery of Art	640	0	0	0	0	0	0	0	0
National Labor Relations Board	168	0	0	0	0	0	0	0	0
National Mediation Board	30	0	0	0	0	0	0	0	0
National Science Foundation	552	16	2.9	0	0	16	100.0	0	0
National Transportation Safety Board	0	0	0	0	0	0	0	0	0
Nuclear Regulatory Commission	1,052	15	1.4	0	0	15	100.0	0	0
Occupational Safety and Health Review Commission	70	0	0	0	0	0	0	0	0
Office of Personnel Management	1,744	31	1.8	0	0	31	100.0	0	0
Peace Corps	0	0	0	0	0	0	0	0	0
Pennsylvania Avenue Development Corporation	89	4	4.5	0	0	4	100.0	0	0
Railroad Retirement Board	285	0	0	0	0	0	0	0	0
Securities and Exchange Commission	556	0	0	0	0	0	0	0	0
Selective Service System	189	0	0	0	0	0	0	0	0
Small Business Administration	2,502	13	.5	0	0	13	100.0	0	0
Smithsonian Institution	4,692	91	1.9	0	0	91	100.0	0	0
Tennessee Valley Authority	86,648	501	.6	0	0	501	100.0	0	0
U.S. Arms Control and Disarmament Agency	28	1	3.6	0	0	1	100.0	0	0
Veterans' Administration	423,339	6,934	1.6	75	1.1	6,859	98.9	0	0
Water Resources Council	0	0	0	0	0	0	0	0	0

[1] Concerns owned by minority women are included as minority businesses and as woman-owned businesses in special analysis 10.1. [2] Percent of total agency. [3] Percent of total minority/disadvantaged businesses. [4] Data is not collected.

FEDERAL PROCUREMENT DATA SYSTEM—FEDERAL CONTRACT ACTIONS OVER $10,000 TO MINORITY AND SMALL DISADVANTAGED BUSINESSES [1] BY EXECUTIVE DEPARTMENT AND AGENCY

[Dollar amounts in thousands, fiscal year 1981, year to date]

	Total agency	Total minority disadvantaged		Small minority		Large minority		8(a) disadvantaged	
		Amount	Percent [2]	Amount	Percent [3]	Amount	Percent [3]	Amount	Percent [3]
Total Federal	$123,419,676	$2,847,286	2.3	$949,014	33.3	$184,954	6.5	$1,713,318	60.2
Executive Office of the President	3,140	349	11.1	157	45.0	0	0	192	55.0
Department of Agriculture	1,251,938	34,579	2.8	15,371	44.5	1,283	3.7	17,925	51.8
Department of Commerce	221,884	28,282	12.7	1,772	6.3	777	2.7	25,733	91.0
Department of Defense	96,394,897	1,736,480	1.8	662,109	38.1	17,000	1.0	1,057,371	60.9
Department of Education	92,397	5,931	6.4	1,117	18.8	0	0	4,814	81.2
Department of Energy	10,055,747	107,106	1.1	15,097	14.1	12,360	11.5	79,649	74.4
Department of Health and Human Services	954,683	94,849	9.9	62,049	65.4	3,720	3.9	29,080	30.7
Department of Housing and Urban Development	49,105	4,650	9.5	776	16.7	127	2.7	3,747	80.6
Department of the Interior	1,358,221	229,796	16.9	20,049	8.7	127,950	55.7	81,797	35.6
Department of Justice	146,723	11,248	7.7	2,296	20.4	777	6.9	8,175	72.7
Department of Labor	533,003	37,000	6.9	16,945	45.8	0	0	20,055	54.2
Department of State	97,007	9,085	9.4	1,456	16.0	7,358	81.0	271	3.0
Department of Transportation	1,418,514	104,130	7.3	10,597	10.2	7,085	6.8	86,448	83.0
Department of the Treasury	313,274	5,339	1.7	929	17.4	491	9.2	3,919	73.4
ACTION	14,040	2,003	14.3	27	1.3	59	2.9	1,917	95.7
Administrative Conference of the United States	47	0	0	0	0	0	0	0	0
Agency for International Development	226,664	15,232	6.7	4,776	31.4	338	2.2	10,118	66.4
American Battle Monuments Commission	31	0	0	0	0	0	0	0	0
Board for International Broadcasting	99	0	0	0	0	0	0	0	0
Civil Aeronautics Board	1,385	302	21.8	0	0	0	0	302	0
Commission on Civil Rights	76	0	0	0	0	0	0	0	0
Commodity Futures Trading Commission	2,243	15	.7	0	0	0	0	15	0
Community Services Administration	671	264	39.3	20	7.6	0	0	244	92.4
Consumer Product Safety Commission	3,124	760	24.3	24	3.2	0	0	736	96.8
Environmental Protection Agency	363,524	16,665	4.6	2,690	16.1	139	.8	13,836	83.0
Equal Employment Opportunity Commission	19,811	891	4.5	0	0	363	40.7	528	59.3

FEDERAL PROCUREMENT DATA SYSTEM—FEDERAL CONTRACT ACTIONS OVER $10,000 TO MINORITY AND SMALL DISADVANTAGED BUSINESSES [1] BY EXECUTIVE DEPARTMENT AND AGENCY—Continued

[Dollar amounts in thousands, fiscal year 1981, year to date]

	Total agency	Total minority disadvantaged		Small minority		Large minority		8(a) disadvantaged	
		Amount	Percent [2]	Amount	Percent [2]	Amount	Percent [2]	Amount	Percent [2]
Federal Communications Commission	4,838	0	0	0	0	0	0	0	0
Federal Election Commission	1,064	0	0	0	0	0	0	0	0
Federal Emergency Management Agency	99,180	1,475	1.5	215	14.6	0	0	1,260	85.4
Federal Maritime Commission	361	0	0	0	0	0	0	0	0
Federal Mediation and Conciliation Service	0	0	0	0	0	0	0	0	0
Federal Mine Safety and Health Review Commission	0	0	0	0	0	0	0	0	0
Federal Trade Commission	5,943	179	3.0	86	48.0	0	0	93	52.0
General Services Administration	2,009,502	220,671	11.0	91,251	41.4	1,922	.9	127,498	57.8
International Communication Agency	21,362	1,702	8.0	0	0	1,602	94.1	100	5.9
International Trade Commission	501	20	4.0	0	0	20	0	0	0
Interstate Commerce Commission	3,833	0	0	0	0	0	0	0	0
Merit Systems Protection Board	0	0	0	0	0	0	0	0	0
National Aeronautics and Space Administration	4,835,977	83,103	1.7	19,070	22.9	195	.2	63,838	76.8
National Capital Planning Commission	0	0	0	0	0	0	0	0	0
National Endowment for the Arts	154	0	0	0	0	0	0	0	0
National Endowment for the Humanities	1,439	51	3.5	10	19.6	41	80.4	0	0
National Gallery of Art	524	0	0	0	0	0	0	0	0
National Labor Relations Board	2,720	0	0	0	0	0	0	0	0
National Mediation Board	1,268	12	.9	12	0	0	0	0	0
National Science Foundation	161,891	175	.1	215	22.9	0	0	−40	22.9
National Transportation Safety Board	405	0	0	0	0	0	0	0	0
Nuclear Regulatory Commission	47,506	2,424	5.1	0	0	0	0	2,424	0
Occupational Safety and Health Review Commission	320	0	0	0	0	0	0	0	0
Office of Personnel Management	304,737	387	.1	11	2.8	0	0	376	97.2
Pennsylvania Avenue Development Corporation	6,773	1,516	22.4	751	49.5	0	0	765	50.5
Railroad Retirement Board	1,389	0	0	0	0	0	0	0	0
Securities and Exchange Commission	3,050	82	2.7	33	40.2	15	18.3	34	41.5
Selective Service System	5,870	186	3.2	0	0	0	0	186	0
Small Business Administration	14,021	5,149	36.7	19	.4	422	8.2	4,708	91.4
Smithsonian Institution	15,486	920	5.9	0	0	0	0	920	0
Tennessee Valley Authority	1,281,516	8,101	.6	2,212	27.3	438	5.4	5,451	67.3

FEDERAL PROCUREMENT DATA SYSTEM—FEDERAL CONTRACT ACTIONS OVER $10,000 TO MINORITY AND SMALL DISADVANTAGED BUSINESSES [1] BY EXECUTIVE DEPARTMENT AND AGENCY—Continued

[Dollar amounts in thousands, fiscal year 1981, year to date]

	Total agency	Total minority disadvantaged		Small minority		Large minority		8(a) disadvantaged	
		Amount	Percent [2]	Amount	Percent [3]	Amount	Percent [3]	Amount	Percent [3]
U.S. Arms Control and Disarmament Agency	1,894	0	0	0	0	0	0	0	0
Veterans' Administration	1,063,904	76,177	7.2	16,872	22.1	472	.6	58,833	77.2
Water Resources Council	0	0	0	0	0	0	0	0	0

[1] Concerns owned by minority women are included as minority businesses and as woman-owned businesses in special analysis 10.1.
[2] Percent of total agency.
[3] Percent of total minority/disadvantaged businesses.

FEDERAL PROCUREMENT DATA SYSTEM—FEDERAL CONTRACT ACTIONS OVER $10,000 TO MINORITY AND SMALL DISADVANTAGED BUSINESSES [1] BY EXECUTIVE DEPARTMENT AND AGENCY

[Fiscal year 1981, year to date]

	Total agency actions	Total minority disadvantaged		Small minority		Large minority		8(a) disadvantaged	
		Actions	Percent [2]	Actions	Percent [3]	Actions	Percent [3]	Actions	Percent [3]
Total Federal	499,953	20,202	4.0	9,245	45.8	1,240	6.1	9,717	48.1
Executive Office of the President	76	8	10.5	3	37.5	0	0	5	62.5
Department of Agriculture	10,337	712	6.9	330	46.3	47	6.6	335	47.1
Department of Commerce	2,538	226	8.9	38	16.8	20	8.8	168	74.3
Department of Defense	360,959	10,466	2.9	5,990	57.2	537	5.1	3,939	37.6
Department of Education	288	13	4.5	1	7.7	0	0	12	92.3
Department of Energy	6,035	434	7.2	90	20.7	13	3.0	331	76.3
Department of Health and Human Services	6,974	868	12.4	489	56.3	105	12.1	274	31.6
Department of Housing and Urban Development	418	70	16.7	10	14.3	2	2.9	58	82.9
Department of the Interior	9,340	1,170	12.5	311	26.6	124	10.6	735	62.8
Department of Justice	1,826	67	3.7	33	49.3	7	10.4	27	40.3
Department of Labor	1,649	229	13.9	76	33.2	0	0	153	66.8
Department of State	1,297	169	13.0	27	16.0	135	79.9	7	4.1
Department of Transportation	8,262	1,214	14.7	247	20.3	43	3.5	924	76.1

FEDERAL PROCUREMENT DATA SYSTEM—FEDERAL CONTRACT ACTIONS OVER $10,000 TO MINORITY AND SMALL DISADVANTAGED BUSINESSES [1] BY EXECUTIVE DEPARTMENT AND AGENCY—Continued

[Fiscal year 1981, year to date]

	Total agency actions	Total minority disadvantaged		Small minority		Large minority		8(a) disadvantaged	
		Actions	Percent [2]	Actions	Percent [3]	Actions	Percent [3]	Actions	Percent [3]
Department of the Treasury	2,343	116	5.0	43	37.1	15	12.9	58	50.0
ACTION	187	22	11.8	2	9.1	1	4.5	19	86.4
Administrative Conference of the United States	3	0	0	0	0	0	0	0	0
Agency for International Development	905	110	12.2	35	31.8	3	2.7	72	65.5
American Battle Monuments Commission	2	0	0	0	0	0	0	0	0
Board for International Broadcasting	1	0	0	0	0	0	0	0	0
Civil Aeronautics Board	27	1	3.7	0	0	0	0	1	0
Commission on Civil Rights	3	0	0	0	0	0	0	0	0
Commodity Futures Trading Commission	31	1	3.2	0	0	0	0	1	0
Community Services Administration	19	5	26.3	1	20.0	0	0	4	80.0
Consumer Product Safety Commission	76	18	23.7	1	5.6	0	0	17	94.4
Environmental Protection Agency	2,726	168	6.2	36	21.4	3	1.8	129	76.8
Equal Employment Opportunity Commission	277	11	4.0	0	0	3	27.3	8	72.7
Federal Communications Commission	96	0	0	0	0	0	0	0	0
Federal Election Commission	12	0	0	0	0	0	0	0	0
Federal Emergency Management Agency	463	25	5.4	8	32.0	0	0	17	68.0
Federal Maritime Commission	13	0	0	0	0	0	0	0	0
Federal Mediation and Conciliation Service	0	0	0	0	0	0	0	0	0
Federal Mine Safety and Health Review Commission	0	0	0	0	0	0	0	0	0
Federal Trade Commission	147	6	4.1	3	50.0	0	0	3	50.0
General Services Administration	26,613	1,095	4.1	447	40.8	25	2.3	623	56.9
International Communication Agency	417	83	19.9	0	0	79	95.2	4	4.8
International Trade Commission	10	1	10.0	0	0	1	0	0	0
Interstate Commerce Commission	30	0	0	0	0	0	0	0	0
Merit Systems Protection Board	0	0	0	0	0	0	0	0	0
National Aeronautics and Space Administration	24,904	1,898	7.6	608	32.0	30	1.6	1,260	66.4
National Capital Planning Commission	0	0	0	0	0	0	0	0	0
National Endowment for the Arts	9	0	0	0	0	0	0	0	0
National Endowment for the Humanities	45	2	4.4	1	50.0	1	50.0	0	0
National Gallery of Art	34	0	0	0	0	0	0	0	0
National Labor Relations Board	26	0	0	0	0	0	0	0	0

FEDERAL PROCUREMENT DATA SYSTEM—FEDERAL CONTRACT ACTIONS OVER $10,000 TO MINORITY AND SMALL DISADVANTAGED BUSINESSES [1] BY EXECUTIVE DEPARTMENT AND AGENCY—Continued

[Fiscal year 1981, year to date]

	Total agency actions	Total minority disadvantaged		Small minority		Large minority		8(a) disadvantaged	
		Actions	Percent[2]	Actions	Percent[3]	Actions	Percent[3]	Actions	Percent[3]
National Mediation Board	120	1	.8	1	0	0	0	0	0
National Science Foundation	258	7	2.7	8	14.3	0	0	−1	14.3
National Transportation Safety Board	4	0	0	0	0	0	0	0	0
Nuclear Regulatory Commission	359	12	3.3	0	0	0	0	12	0
Occupational Safety and Health Review Commission	9	0	0	0	0	0	0	0	0
Office of Personnel Management	322	3	.9	1	33.3	0	0	2	66.7
Pennsylvania Avenue Development Corporation	40	8	20.0	5	62.5	0	0	3	37.5
Railroad Retirement Board	31	0	0	0	0	0	0	0	0
Securities and Exchange Commission	58	5	8.6	2	40.0	1	20.0	2	40.0
Selective Service System	56	3	5.4	0	0	0	0	3	0
Small Business Administration	214	56	26.2	8	14.3	13	23.2	35	62.5
Smithsonian Institution	323	7	2.2	0	0	0	0	7	0
Tennessee Valley Authority	6,057	78	1.3	57	73.1	8	10.3	13	16.7
U.S. Arms Control and Disarmament Agency	38	0	0	0	0	0	0	0	0
Veterans' Administration	22,646	814	3.6	333	40.9	24	2.9	457	56.1
Water Resources Council	0	0	0	0	0	0	0	0	0

[1] Concerns owned by minority women are included as minority businesses and as woman-owned businesses in special analysis 10.1. [2] Percent of total agency. [3] Percent of total minority/disadvantaged businesses.

FEDERAL PROCUREMENT DATA SYSTEM—FEDERAL CONTRACT ACTIONS $10,000 OR LESS AND SUBCONTRACTING TO MINORITY AND SMALL DISADVANTAGED BUSINESSES [1] BY EXECUTIVE DEPARTMENT AND AGENCY

[Dollar amounts in thousands, fiscal year 1981, year to date]

	Total agency	Total minority disadvantaged		8(a) disadvantaged prime		All other minority prime		Subcontract [4]	
		Amount	Percent [2]	Amount	Percent [3]	Amount	Percent [3]	Amount	Percent [3]
Total Federal	$11,058,013	$376,334	12.4	$24,647	1.8	$187,930	13.7	$163,757	84.6
Executive Office of the President	4,498	37	.8	37	100.0	0	0	0	0
Department of Agriculture	294,922	7,345	2.5	500	6.8	5,647	76.9	1,198	16.3
Department of Commerce	46,845	1,853	4.0	225	12.1	1,029	55.5	599	32.3
Department of Defense	7,834,358	505,592	6.5	15,263	3.0	166,044	23.0	374,285	74.0
Department of Education	5,114	100	2.0	0	0	100	100.0	0	0
Department of Energy	111,225	189,599	170.5	24	0	653	.3	188,922	99.6
Department of Health and Human Services	256,807	7,359	2.9	509	6.9	6,742	91.6	108	1.5
Department of Housing and Urban Development	10,843	728	6.7	84	11.5	339	46.6	305	41.9
Department of the Interior	302,212	22,608	7.5	2,098	9.3	9,531	42.2	10,979	48.6
Department of Justice	112,848	4,312	3.8	70	1.6	4,047	93.9	195	4.5
Department of Labor	39,465	495,442	255.4	528	.1	262	.1	494,652	99.8
Department of State	14,035	4,985	35.5	52	1.0	4,933	99.0	0	0
Department of Transportation	236,750	19,218	8.1	1,294	6.7	5,878	30.6	12,046	62.7
Department of the Treasury	87,124	3,112	3.6	104	3.3	2,940	94.5	68	2.2
ACTION	12,339	124	1.0	87	70.2	37	29.8	0	0
Administrative Conference of the United States	201	5	2.5	0	0	5	100.0	0	0
Agency for International Development	4,069	322	7.9	38	11.8	284	88.2	0	0
American Battle Monuments Commission	449	0	0	0	0	0	0	0	0
Board for International Broadcasting	176	0	0	0	0	0	0	0	0
Civil Aeronautics Board	491	0	0	0	0	0	0	0	0
Commission on Civil Rights	693	131	18.9	0	0	131	100.0	0	0
Commodity Futures Trading Commission	736	0	0	0	0	0	0	0	0
Community Services Administration	437	43	9.8	0	0	43	100.0	0	0
Consumer Product Safety Commission	1,818	520	28.6	508	97.7	12	2.3	0	0
Environmental Protection Agency	36,999	5,255	14.2	38	.7	1,594	30.3	3,623	68.9
Equal Employment Opportunity Commission	1,883	0	0	0	0	0	0	0	0
Federal Communications Commission	1,989	55	2.8	0	0	55	100.0	0	0
Federal Election Commission	728	17	2.3	0	0	17	100.0	0	0
Federal Emergency Management Agency	4,048	55	1.4	47	85.5	8	14.5	0	0

FEDERAL PROCUREMENT DATA SYSTEM—FEDERAL CONTRACT ACTIONS $10,000 OR LESS AND SUBCONTRACTING TO MINORITY AND SMALL DISADVANTAGED BUSINESSES [1] BY EXECUTIVE DEPARTMENT AND AGENCY—Continued

[Dollar amounts in thousands, fiscal year 1981, year to date]

	Total agency	Total minority disadvantaged		8(a) disadvantaged prime		All other minority prime		Subcontract [4]	
		Amount	Percent [2]	Amount	Percent [3]	Amount	Percent [3]	Amount	Percent [3]
Federal Maritime Commission	227	0	0	0	0	0	0	0	0
Federal Mediation and Conciliation Service	614	0	0	0	0	0	0	0	0
Federal Mine Safety and Health Review Commission	0	0	0	0	0	0	0	0	0
Federal Trade Commission	2,266	50	2.2	0	0	50	100.0	0	0
General Services Administration	452,612	11,076	2.4	1,406	12.7	9,670	87.3	0	0
International Communication Agency	14,113	323	2.3	0	0	323	100.0	0	0
International Trade Commission	682	18	2.6	0	0	18	100.0	0	0
Interstate Commerce Commission	2,389	16	.7	11	68.8	5	31.3	0	0
Merit Systems Protection Board	0	0	0	0	0	0	0	0	0
National Aeronautics and Space Administration	127,418	52,616	41.3	736	1.4	1,174	2.2	50,706	96.4
National Capital Planning Commission	56	0	0	0	0	0	0	0	0
National Endowment for the Arts	409	12	2.9	0	0	12	100.0	0	0
National Endowment for the Humanities	480	31	6.5	0	0	31	100.0	0	0
National Gallery of Art	1,607	0	0	0	0	0	0	0	0
National Labor Relations Board	593	0	0	0	0	0	0	0	0
National Mediation Board	195	0	0	0	0	0	0	0	0
National Science Foundation	2,813	1	0	0	0	44	400.0	−43	300.0
National Transportation Safety Board	362	9	2.5	5	55.6	4	44.4	0	0
Nuclear Regulatory Commission	4,028	48	1.2	−1	2.1	34	70.8	15	31.3
Occupational Safety and Health Review Commission	167	8	4.8	0	0	0	0	8	100.0
Office of Personnel Management	8,117	132	1.6	0	0	132	100.0	0	0
Pennsylvania Avenue Development Corporation	610	50	8.2	29	58.0	21	42.0	0	0
Railroad Retirement Board	870	0	0	0	0	0	0	0	0
Securities and Exchange Commission	1,980	29	1.5	29	100.0	0	0	0	0
Selective Service System	729	−74	10.2	0	0	−74	100.0	0	0
Small Business Administration	6,832	140	2.0	114	81.4	26	18.6	0	0
Smithsonian Institution	3,528	124	3.5	0	0	124	100.0	0	0
Tennessee Valley Authority	154,838	15,748	10.2	0	0	2,286	14.5	13,462	85.5
U.S. Arms Control and Disarmament Agency	218	0	0	0	0	0	0	0	0
Veterans' Administration	845,163	27,160	3.2	812	3.0	13,719	50.5	12,629	46.5
Water Resources Council	0	0	0	0	0	0	0	0	0

[1] Concerns owned by minority women are included as minority businesses and as woman-owned businesses in special analysis 10.1. [2] Percent of total agency. [3] Percent of total minority/disadvantaged businesses. [4] From prime contracts over $500,000.

FEDERAL PROCUREMENT DATA SYSTEM—FEDERAL CONTRACT ACTIONS $10,000 OR LESS AND SUBCONTRACTING TO MINORITY AND SMALL DISADVANTAGED BUSINESSES [1]

[Fiscal year 1981, year to date]

	Total agency actions	Total minority disadvantaged		8(a) Disadvantaged prime		All other minority prime		Subcontract [4]	
		Actions	Percent [2]	Actions	Percent [3]	Amount	Percent [3]	Amount	Percent [3]
Total Federal	17,848,271	418,132	2.3	42,442	10.2	375,690	89.8	0	0
Executive Office of the President	952	28	2.9	28	100.0	0	0	0	0
Department of Agriculture	681,278	8,538	1.3	440	5.2	8,098	94.8	0	0
Department of Commerce	51,412	1,036	2.0	118	11.4	918	88.6	0	0
Department of Defense	12,380,331	271,507	2.2	37,252	13.7	234,255	86.3	0	0
Department of Education	3,207	123	3.8	0	0	123	100.0	0	0
Department of Energy	33,475	313	.9	12	3.8	301	96.2	0	0
Department of Health and Human Services	544,376	6,199	1.1	528	8.5	5,671	91.5	0	0
Department of Housing and Urban Development	10,427	249	2.4	29	11.6	220	88.4	0	0
Department of the Interior	579,127	15,104	2.6	2,649	17.5	12,455	82.5	0	0
Department of Justice	396,822	58,184	14.7	42	.1	58,142	99.9	0	0
Department of Labor	24,446	541	2.2	65	12.0	476	88.0	0	0
Department of State	9,986	2,955	29.6	20	.7	2,935	99.3	0	0
Department of Transportation	297,907	6,733	2.3	303	4.5	6,430	95.5	0	0
Department of the Treasury	103,753	3,434	3.3	55	1.6	3,379	98.4	0	0
ACTION	11,456	91	.8	52	57.1	39	42.9	0	0
Administrative Conference of the United States	352	2	.6	0	0	2	100.0	0	0
Agency for International Development	1,351	72	5.3	11	15.3	61	84.7	0	0
American Battle Monuments Commission	873	0	0	0	0	0	0	0	0
Board for International Broadcasting	82	0	0	0	0	0	0	0	0
Civil Aeronautics Board	319	0	0	0	0	0	0	0	0
Commission on Civil Rights	1,349	125	9.3	0	0	125	100.0	0	0
Commodity Futures Trading Commission	1,625	0	0	0	0	0	0	0	0
Community Services Administration	311	28	9.0	0	0	28	100.1	0	0
Consumer Product Safety Commission	1,176	16	1.4	15	93.8	1	6.3	0	0
Environmental Protection Agency	42,494	1,003	2.4	9	.9	994	99.1	0	0
Equal Employment Opportunity Commission	1,237	0	0	0	0	0	0	0	0
Federal Communications Commission	2,283	42	1.8	0	0	42	100.0	0	0

FEDERAL PROCUREMENT DATA SYSTEM—FEDERAL CONTRACT ACTIONS $10,000 OR LESS AND SUBCONTRACTING TO MINORITY AND SMALL DISADVANTAGED BUSINESSES [1]—Continued

[Fiscal year 1981, year to date]

	Total agency actions	Total minority disadvantaged		8(a) Disadvantaged prime		All other minority prime		Subcontract [4]	
		Actions	Percent [2]	Actions	Percent [3]	Amount	Percent [3]	Amount	Percent [3]
Federal Election Commission	945	18	1.9	1	5.6	17	94.4	0	0
Federal Emergency Management Agency	4,071	36	.9	32	88.9	4	11.1	0	0
Federal Maritime Commission	272	0	0	0	0	0	0	0	0
Federal Mediation and Conciliation Service	663	0	0	0	0	0	0	0	0
Federal Mine Safety and Health Review Commission	0	0	0	0	0	0	0	0	0
Federal Trade Commission	4,139	22	.5	0	0	22	100.0	0	0
General Services Administration	259,923	5,003	1.9	387	7.7	4,516	92.3	0	0
International Communication Agency	22,422	119	.5	0	0	119	100.0	0	0
International Trade Commission	1,493	2	.1	0	0	2	100.0	0	0
Interstate Commerce Commission	2,080	60	2.9	17	28.3	43	71.7	0	0
Merit Systems Protection Board	0	0	0	0	0	0	0	0	0
National Aeronautics and Space Administration	125,874	1,547	1.2	92	5.9	1,455	94.1	0	0
National Capital Planning Commission	177	0	0	0	0	0	0	0	0
National Endowment for the Arts	502	17	3.4	0	0	17	100.0	0	0
National Endowment for the Humanities	875	71	8.1	0	0	71	100.0	0	0
National Gallery of Art	2,062	0	0	0	0	0	0	0	0
National Labor Relations Board	421	0	0	0	0	0	0	0	0
National Mediation Board	222	0	0	0	0	0	0	0	0
National Science Foundation	2,147	36	1.7	0	0	36	100.0	0	0
National Transportation Safety Board	213	10	4.7	5	50.0	5	50.0	0	0
Nuclear Regulatory Commission	3,385	39	1.2	1	2.6	38	97.4	0	0
Occupational Safety and Health Review Commission	211	0	0	0	0	0	0	0	0
Office of Personnel Management	11,441	178	1.6	0	0	178	100.0	0	0
Pennsylvania Avenue Development Corp	516	9	1.7	1	11.1	8	88.9	0	0
Railroad Retirement Board	1,141	0	0	0	0	0	0	0	0
Securities and Exchange Commission	1,667	7	.4	7	100.0	0	0	0	0
Selective Service System	723	3	.4	0	0	3	100	0	0
Small Business Administration	8,957	106	1.2	69	65.1	37	34.9	0	0
Smithsonian Institution	3,716	99	2.7	0	0	99	100.0	0	0
Tennessee Valley Authority	394,959	2,598	.7	0	0	2,598	100.0	0	0
U.S. Arms Control and Disarmaments Agency	107	0	0	0	0	0	0	0	0

FEDERAL PROCUREMENT DATA SYSTEM—FEDERAL CONTRACT ACTIONS $10,000 OR LESS AND SUBCONTRACTING TO MINORITY AND SMALL DISADVANTAGED BUSINESSES [1]—Continued

[Fiscal year 1981, year to date]

	Total agency actions	Total minority disadvantaged		8(a) Disadvantaged prime		All other minority prime		Subcontract [4]	
		Actions	Percent [2]	Actions	Percent [3]	Amount	Percent [3]	Amount	Percent [3]
Veterans' Administration	1,810,540	31,829	1.8	202	.6	31,627	39.4	0	0
Water Resources Council	0	0	0	0	0	0	0	0	0

[1] Concerns owned by minority women are included as minority businesses and as woman-owned businesses in special analysis 10.1. [2] Percent of total agency. [3] Percent of total minority/disadvantaged businesses. [4] Data is not collected.

FEDERAL PROCUREMENT DATA SYSTEM—FEDERAL CONTRACT ACTIONS OVER $10,000 TO MINORITY AND SMALL DISADVANTAGED BUSINESSES [1] BY EXECUTIVE DEPARTMENT AND AGENCY

[Dollar amounts in thousands, fiscal year 1980, year to date]

	Total agency	Total minority disadvantaged		Small minority		Large minority		8(a) disadvantaged	
		Amount	Percent [2]	Amount	Percent [3]	Amount	Percent [3]	Amount	Percent [3]
Total Federal	$99,661,412	$1,914,965	1.9	$536,627	30.6	$181,554	9.5	$1,146,784	59.9
Executive Office of the President	2,983	0	0	0	0	0	0	0	0
Department of Agriculture	2,030,293	58,938	2.9	14,578	24.7	2,276	3.9	42,084	71.4
Department of Commerce	220,768	24,604	11.1	2,832	11.5	1,335	5.4	20,437	83.1
Department of Defense	76,018,037	1,097,328	1.4	355,239	32.4	50,420	4.6	691,669	63.0
Department of Education	0	0	0	0	0	0	0	0	0
Department of Energy	7,883,483	59,975	.8	11,266	18.8	67	.1	48,642	81.1
Department of Health and Human Services	1,108,242	106,726	9.6	67,260	63.0	4,460	4.2	34,986	32.8
Department of Housing and Urban Development	59,421	3,676	6.2	−8	.2	0	0	3,684	.2
Department of the Interior	1,353,790	194,368	14.4	26,401	13.6	101,295	52.1	66,672	34.3
Department of Justice	118,031	7,885	6.7	1,600	20.3	1,992	25.3	4,293	54.4
Department of Labor	332,208	22,667	6.8	14,854	65.5	400	1.8	7,413	32.7
Department of State	52,516	5,646	10.8	659	11.7	4,670	82.7	317	5.6
Department of Transportation	1,221,388	87,328	7.1	15,542	17.8	6,628	7.6	65,158	74.6
Department of the Treasury	262,044	7,769	3.0	999	12.9	1,147	14.8	5,623	72.4

FEDERAL PROCUREMENT DATA SYSTEM—FEDERAL CONTRACT ACTIONS OVER $10,000 TO MINORITY AND SMALL DISADVANTAGED BUSINESSES [1] BY EXECUTIVE DEPARTMENT AND AGENCY—Continued

[Dollar amounts in thousands, fiscal year 1980, year to date]

	Total agency	Total minority disadvantaged		Small minority		Large minority		8(a) disadvantaged	
		Amount	Percent [2]	Amount	Percent [3]	Amount	Percent [3]	Amount	Percent [3]
ACTION	12,902	2,787	21.6	0	0	0	0	2,787	0
Administrative Conference of the United States	128	0	0	0	0	0	0	0	0
Agency for International Development	228,480	18,801	8.2	5,124	27.3	1,364	7.3	12,313	65.5
American Battle Monuments Commission	49	0	0	0	0	0	0	0	0
Board for International Broadcasting	112	0	0	0	0	0	0	0	0
Civil Aeronautics Board	1,978	472	23.9	0	0	0	0	472	0
Commission on Civil Rights	215	126	58.6	85	67.5	20	15.9	21	16.7
Commodity Futures Trading Commission	1,909	0	0	0	0	0	0	0	0
Community Services Administration	2,042	1,073	52.5	76	7.1	0	0	997	92.9
Consumer Product Safety Commission	5,487	1,069	19.5	37	3.5	0	0	1,032	96.5
Environmental Protection Agency	358,867	15,445	4.3	957	6.2	106	.7	14,382	93.1
Equal Employment Opportunity Commission	15,374	1,289	8.4	261	20.2	0	0	1,028	79.8
Federal Communications Commission	5,617	135	2.4	15	11.1	0	0	120	88.9
Federal Election Commission	733	0	0	0	0	0	0	0	0
Federal Emergency Management Agency	170,820	2,737	1.6	1,248	45.6	2	.1	1,487	54.3
Federal Maritime Commission	300	33	11.0	0	0	33	0	0	0
Federal Mediation and Conciliation Service	0	0	0	0	0	0	0	0	0
Federal Mine Safety and Health Review Commission	0	0	0	0	0	0	0	0	0
Federal Trade Commission	2,491	5	.2	0	0	0	0	5	0
General Services Administration	1,213,410	46,453	3.8	27,126	58.4	433	.9	18,894	40.7
International Communication Agency	13,771	1,513	11.0	0	0	1,483	98.0	30	2.0
International Trade Commission	389	0	0	0	0	0	0	0	0
Interstate Commerce Commission	5,653	213	3.8	121	56.8	0	0	92	43.2
Merit Systems Protection Board	0	0	0	0	0	0	0	0	0
National Aeronautics and Space Administration	4,324,141	67,317	1.6	19,595	29.1	345	.5	47,377	70.4
National Capital Planning Commission	1,782	92	5.2	92	0	0	0	0	0
National Endowment for the Arts	0	0	0	0	0	0	0	0	0
National Endowment for the Humanities	0	0	0	0	0	0	0	0	0
National Gallery of Art	0	0	0	0	0	0	0	0	0
National Labor Relations Board	0	0	0	0	0	0	0	0	0
National Mediation Board	1,741	0	0	0	0	0	0	0	0

FEDERAL PROCUREMENT DATA SYSTEM—FEDERAL CONTRACT ACTIONS OVER $10,000 TO MINORITY AND SMALL DISADVANTAGED BUSINESSES [1] BY EXECUTIVE DEPARTMENT AND AGENCY—Continued

[Dollar amounts in thousands, fiscal year 1980, year to date]

	Total agency	Total minority disadvantaged		Small minority		Large minority		8(a) disadvantaged	
		Amount	Percent [2]	Amount	Percent [3]	Amount	Percent [3]	Amount	Percent [3]
National Science Foundation	156,403	475	.3	35	7.4	0	0	440	92.6
National Transportation Safety Board	595	200	33.6	200	0	0	0	0	0
Nuclear Regulatory Commission	36,760	3,358	9.1	857	25.5	190	5.7	2,311	68.8
Occupational Safety and Health Review Commission	418	0	0	0	0	0	0	0	0
Office of Personnel Management	576,954	182	0	0	0	0	0	182	0
Pennsylvania Avenue Development Corporation	10,540	381	3.6	27	7.1	0	0	354	92.9
Railroad Retirement Board	2,502	0	0	0	0	0	0	0	0
Securities and Exchange Commission	3,471	15	.4	0	0	0	0	15	0
Selective Service System	4,924	0	0	0	0	0	0	0	0
Small Business Administration	22,436	9,112	40.6	3,945	43.3	136	1.5	5,031	55.2
Smithsonian Institution	16,008	40	.2	0	0	0	0	40	0
Tennessee Valley Authority	802,199	7,491	.9	3,982	53.2	2,444	32.6	1,065	14.2
U.S. Arms Control and Disarmament Agency	3,052	50	1.6	50	0	0	0	0	0
Veterans' Administration	993,456	57,191	5.8	11,572	20.2	288	.5	45,331	79.3
Water Resources Council	99	0	0	0	0	0	0	0	0

[1] Concerns owned by minority women are included as minority businesses and as woman-owned businesses in special analysis 10.1. [2] Percent of total agency. [3] Percent of total minority/disadvantaged businesses.

FEDERAL PROCUREMENT DATA SYSTEM—FEDERAL CONTRACT ACTIONS OVER $10,000 TO MINORITY AND SMALL DISADVANTAGED BUSINESSES [1] BY EXECUTIVE DEPARTMENT AND AGENCY

[Fiscal year 1980, year to date]

	Total agency actions	Total minority disadvantaged		Small minority		Large minority		8(a) disadvantaged	
		Actions	Percent [2]	Actions	Percent [3]	Actions	Percent [3]	Actions	Percent [3]
Total Federal	433,778	16,659	3.8	7,021	42.1	1,402	8.4	8,236	49.4
Executive Office of the President	48	0	0	0	0	0	0	0	0

FEDERAL PROCUREMENT DATA SYSTEM—FEDERAL CONTRACT ACTIONS OVER $10,000 TO MINORITY AND SMALL DISADVANTAGED BUSINESSES [1] BY EXECUTIVE DEPARTMENT AND AGENCY—Continued

[Fiscal year 1980, year to date]

	Total agency actions	Total minority disadvantaged		Small minority		Large minority		8(a) disadvantaged	
		Actions	Percent [2]	Actions	Percent [3]	Actions	Percent [3]	Actions	Percent [3]
Department of Agriculture	11,276	574	5.1	219	38.2	49	8.5	306	53.3
Department of Commerce	2,617	276	10.6	58	20.9	8	2.9	212	76.3
Department of Defense	320,974	8,280	2.6	4,276	51.6	912	11.0	3,002	37.3
Department of Education	0	0	0	0	0	0	0	0	0
Department of Energy	5,746	400	7.0	99	24.8	2	.5	299	74.8
Department of Health and Human Services	7,212	1,038	14.4	663	63.9	30	2.9	345	33.2
Department of Housing and Urban Development	499	98	19.6	22	22.4	0	0	76	77.6
Department of the Interior	7,411	86.3	11.6	248	28.7	94	10.9	521	60.4
Department of Justice	1,489	64	4.3	17	26.6	15	23.4	32	50.0
Department of Labor	979	112	11.4	42	37.5	2	1.8	68	60.7
Department of State	965	152	15.8	22	14.5	124	81.6	6	3.9
Department of Transportation	8,514	1,207	14.2	243	20.1	41	3.4	923	76.5
Department of the Treasury	1,770	72	4.1	21	29.2	16	22.2	35	48.6
ACTION	191	30	15.7	0	0	0	0	30	0
Administrative Conference of the United States	6	0	0	0	0	0	0	0	0
Agency for International Development	1,041	117	11.2	35	29.9	10	8.5	72	61.5
American Battle Monuments Commission	3	0	0	0	0	0	0	0	0
Board for International Broadcasting	2	0	0	0	0	0	0	0	0
Civil Aeronautics Board	42	3	7.1	0	0	0	0	3	0
Commission on Civil Rights	11	6	54.5	4	66.7	1	16.7	1	16.7
Commodity Futures Trading Commission	23	0	0	0	0	0	0	0	0
Community Services Administration	37	9	24.3	2	22.2	0	0	7	77.8
Consumer Product Safety Commission	96	18	18.8	1	5.6	0	0	17	94.4
Environmental Protection Agency	2,937	150	5.1	30	20.0	5	3.3	115	76.7
Equal Employment Opportunity Commission	178	11	6.2	2	18.2	0	0	9	81.8
Federal Communications Commission	108	5	4.6	1	20.0	0	0	4	80.0
Federal Election Commission	14	0	0	0	0	0	0	0	0
Federal Emergency Management Agency	775	43	5.5	23	53.5	1	2.3	19	44.2
Federal Maritime Commission	15	1	6.7	0	0	1	0	0	0
Federal Mediation and Conciliation Service	0	0	0	0	0	0	0	0	0
Federal Mine Safety and Health Review Commission	0	0	0	0	0	0	0	0	0

FEDERAL PROCUREMENT DATA SYSTEM—FEDERAL CONTRACT ACTIONS OVER $10,000 TO MINORITY AND SMALL DISADVANTAGED BUSINESSES [1] BY EXECUTIVE DEPARTMENT AND AGENCY—Continued

[Fiscal year 1980, year to date]

	Total agency actions	Total minority disadvantaged		Small minority		Large minority		8(a) disadvantaged	
		Actions	Percent [2]	Actions	Percent [3]	Actions	Percent [3]	Actions	Percent [3]
Federal Trade Commission	90	0	0	0	0	0	0	0	0
General Services Administration	10,619	424	4.0	192	45.3	15	3.5	217	51.2
International Communication Agency	318	34	10.7	0	0	33	97.1	1	2.9
International Trade Commission	9	0	0	0	0	0	0	0	0
Interstate Commerce Commission	58	5	8.6	4	80.0	0	0	1	20.0
Merit Systems Protection Board	0	0	0	0	0	0	0	0	0
National Aeronautics and Space Administration	24,479	1,736	7.1	446	25.7	20	1.2	1,270	73.2
National Capital Planning Commission	31	4	12.9	4	0	0	0	0	0
National Endowment for the Arts	0	0	0	0	0	0	0	0	0
National Endowment for the Humanities	0	0	0	0	0	0	0	0	0
National Gallery of Art	0	0	0	0	0	0	0	0	0
National Labor Relations Board	0	0	0	0	0	0	0	0	0
National Mediation Board	71	0	0	0	0	0	0	0	0
National Science Foundation	233	4	1.7	2	50.0	0	0	2	50.0
National Transportation Safety Board	4	1	25.0	1	0	0	0	0	0
Nuclear Regulatory Commission	315	18	5.7	2	11.1	1	5.6	15	83.3
Occupational Safety and Health Review Commission	13	0	0	0	0	0	0	0	0
Office of Personnel Management	190	4	2.1	0	0	0	0	4	0
Pennsylvania Avenue Development Corporation	42	5	11.9	2	40.0	0	0	3	60.0
Railroad Retirement Board	43	0	0	0	0	0	0	0	0
Securities and Exchange Commission	54	1	1.9	0	0	0	0	1	0
Selective Service System	21	0	0	0	0	0	0	0	0
Small Business Administration	310	98	31.6	35	35.7	5	5.1	58	59.2
Smithsonian Institution	211	1	.5	0	0	0	0	1	0
Tennessee Valley Authority	6,537	74	1.1	62	83.8	10	13.5	2	2.7
U.S. Arms Control and Disarmament Agency	48	1	2.1	1	0	0	0	0	0
Veterans' Administration	15,099	718	4.8	242	33.7	7	1.0	459	65.3
Water Resources Council	2	0	0	0	0	0	0	0	0

[1] Concerns owned by minority women are included as minority businesses and as woman-owned businesses in special analysis 10.1. [2] Percent of total agency. [3] Percent of total minority/disadvantaged businesses.

FEDERAL PROCUREMENT DATA SYSTEM—FEDERAL CONTRACT ACTIONS $10,000 OR LESS AND SUBCONTRACTING TO MINORITY AND SMALL DISADVANTAGED BUSINESSES [1] BY EXECUTIVE DEPARTMENT AND AGENCY

[Dollar amounts in thousands, fiscal year 1980, year to date]

	Total agency	Total minority disadvantaged		8(a) disadvantaged prime		All other minority prime		Subcontract [4]	
		Amount	Percent [3]	Amount	Percent [3]	Amount	Percent [3]	Amount	Percent [3]
Total Federal	$10,585,410	$707,336	6.7	$34,152	4.8	$245,111	34.7	$428,073	60.5
Executive Office of the President	0	0	0	0	0	0	0	0	0
Department of Agriculture	271,388	5,396	2.0	350	6.5	4,050	75.1	996	18.5
Department of Commerce	50,699	6,563	12.9	4,197	63.9	2,241	34.1	125	1.9
Department of Defense	6,879,183	363,069	5.3	12,857	3.5	117,353	32.3	232,859	64.1
Department of Education	0	0	0	0	0	0	0	0	0
Department of Energy	163,628	16,086	9.8	43	.3	1,280	8.0	14,763	91.8
Department of Health and Human Services	189,467	8,587	4.5	370	4.3	6,990	81.4	1,227	14.3
Department of Housing and Urban Development	14,702	874	5.9	247	28.3	370	42.3	257	29.4
Department of the Interior	348,185	159,223	45.7	2,631	1.7	76,822	48.2	79,770	50.1
Department of Justice	98,786	2,381	2.4	11	.5	2,335	98.1	35	1.5
Department of Labor	36,642	4,142	11.3	927	22.4	1,576	38.0	1,639	39.6
Department of State	9,695	4,716	48.6	247	5.2	4,469	94.8	0	0
Department of Transportation	277,633	55,377	19.9	3,898	7.0	5,180	9.4	46,299	83.6
Department of the Treasury	89,401	2,774	3.1	500	18.0	2,246	61.0	28	1.0
ACTION	12,674	260	2.1	93	35.8	167	64.2	0	0
Administrative Conference of the United States	164	0	0	0	0	0	0	0	0
Agency for International Development	6,691	292	4.4	74	25.3	218	74.7	0	0
American Battle Monuments Commission	1,266	0	0	0	0	0	0	0	0
Board for International Broadcasting	55	0	0	0	0	0	0	0	0
Civil Aeronautics Board	582	2	.3	2	100.0	0	0	0	0
Commission on Civil Rights	754	145	19.2	0	0	145	100.0	0	0
Commodity Futures Trading Commission	780	1,466	188.2	8	.5	1,460	99.5	0	0
Community Services Administration	1,707	176	10.3	0	0	176	100.0	0	0
Consumer Product Safety Commission	1,697	159	9.4	159	100.0	0	0	0	0
Environmental Protection Agency	32,600	1,475	4.5	47	3.2	1,063	72.1	365	24.7
Equal Employment Opportunity Commission	407	0	0	0	0	0	0	0	0
Federal Communications Commission	2,215	26	1.3	7	25.0	21	75.0	0	0
Federal Election Commission	487	1	.2	1	100.0	0	0	0	0
Federal Emergency Management Agency	6,218	88	1.4	40	45.5	10	11.4	36	43.2

FEDERAL PROCUREMENT DATA SYSTEM—FEDERAL CONTRACT ACTIONS $10,000 OR LESS AND SUBCONTRACTING TO MINORITY AND SMALL DISADVANTAGED BUSINESSES [1] BY EXECUTIVE DEPARTMENT AND AGENCY—Continued

[Dollar amounts in thousands, fiscal year 1980, year to date]

	Total agency	Total minority disadvantaged		8(a) disadvantaged prime		All other minority prime		Subcontract [4]	
		Amount	Percent [2]	Amount	Percent [3]	Amount	Percent [3]	Amount	Percent [3]
Federal Maritime Commission	177	0	0	0	0	0	0	0	0
Federal Mediation and Conciliation Service	564	0	0	0	0	0	0	0	0
Federal Mine Safety and Health Review Commission	0	0	0	0	0	0	0	0	0
Federal Trade Commission	2,721	35	1.3	0	0	35	100.0	0	0
General Services Administration	855,009	4,653	.5	1,603	34.5	3,050	65.5	0	0
International Communication Agency	13,486	217	1.6	0	0	217	100.0	0	0
International Trade Commission	694	0	0	0	0	0	0	0	0
Interstate Commerce Commission	2,090	48	2.3	0	0	48	100.0	0	0
Merit Systems Protection Board	0	0	0	0	0	0	0	0	0
National Aeronautics and Space Administration	131,199	44,525	33.9	475	1.1	1,065	2.4	42,985	96.5
National Capital Planning Commission	115	14	12.2	0	0	14	100.0	0	0
National Endowment for the Arts	578	7	1.2	0	0	7	100.0	0	0
National Endowment for the Humanities	702	41	5.8	0	0	41	100.0	0	0
National Gallery of Art	0	0	0	0	0	0	0	0	0
National Labor Relations	0	0	0	0	0	0	0	0	0
National Mediation Board	310	0	0	0	0	0	0	0	0
National Science Foundation	1,918	−415	21.6	0	0	80	19.3	−495	119.3
National Transportation Safety Board	484	169	34.9	95	56.2	74	43.8	0	0
Nuclear Regulatory Commission	3,532	28	.8	11	39.3	2	7.1	15	53.6
Occupational Safety and Health Review Commission	94	0	0	0	0	0	0	0	0
Office of Personnel Management	7,613	112	1.5	0	0	112	100.0	0	0
Pennsylvania Avenue Development Corporation	429	952	221.9	0	0	72	7.6	880	92.4
Railroad Retirement Board	1,356	0	0	0	0	0	0	0	0
Securities and Exchange Commission	1,297	0	0	0	0	0	0	0	0
Selective Service System	273	2	.7	0	0	2	100.0	0	0
Small Business Administration	6,808	200	2.9	142	71.0	58	29.0	0	0
Smithsonian Institution	23,610	125	.5	0	0	125	100.0	0	0
Tennessee Valley Authority	167,166	1,495	.9	0	0	1,495	100.0	0	0
U.S. Arms Control and Disarmament Agency	135	0	0	0	0	0	0	0	0
Veterans' Administration	865,137	21,846	2.5	3,117	23.4	10,442	47.8	6,287	26.8
Water Resources Council	203	0	0	0	0	0	0	0	0

[1] Concerns owned by minority women are included as minority businesses and as woman-owned businesses in special analysis 10.1.
[2] Percent of total agency.
[3] Percent of total minority of disadvantaged businesses.
[4] From prime contracts over $500,000.

FEDERAL PROCUREMENT DATA SYSTEM—FEDERAL CONTRACT ACTIONS $10,000 OR LESS AND SUBCONTRACTING TO MINORITY AND SMALL DISADVANTAGED BUSINESSES [1] BY EXECUTIVE DEPARTMENT AND AGENCY

[Fiscal year 1980, year to date]

	Total agency actions	Total minority disadvantaged		8(a) disadvantaged prime		All other minority prime		Subcontract [4]	
		Actions	Percent [2]	Actions	Percent [3]	Amount	Percent [3]	Amount	Percent [3]
Total Federal	17,051,004	353,573	2.1	39,660	11.2	313,913	86.8	0	0
Executive Office of the President	0	0	0	0	0	0	0	0	0
Department of Agriculture	650,228	8,392	1.3	103	1.2	8,289	98.8	0	0
Department of Commerce	58,360	1,295	2.2	126	9.7	1,169	90.3	0	0
Department of Defense	11,746,636	218,303	1.9	34,925	16.0	183,378	84.0	0	0
Department of Education	0	0	0	0	0	0	0	0	0
Department of Energy	37,089	266	.7	11	4.1	255	95.9	0	0
Department of Health and Human Services	338,190	5,251	1.6	194	3.7	5,057	96.3	0	0
Department of Housing and Urban Development	9,787	274	2.8	64	23.4	210	76.6	0	0
Department of the Interior	571,525	13,699	2.4	2,253	16.4	11,446	83.6	0	0
Department of Justice	417,223	59,367	14.2	8	0	59,359	100.0	0	0
Department of Labor	31,163	886	2.8	189	21.3	697	78.7	0	0
Department of State	5,783	2,862	49.5	122	4.3	2,740	95.7	0	0
Department of Transportation	284,729	6,269	2.2	278	4.4	5,991	95.6	0	0
Department of the Treasury	116,785	2,959	2.5	67	2.3	2,892	97.7	0	0
ACTION	12,247	114	.9	44	38.6	70	61.4	0	0
Administrative Conference of the United States	412	0	0	0	0	0	0	0	0
Agency for International Development	3,775	76	2.0	17	22.4	59	77.6	0	0
American Battle Monuments Commission	2,743	0	0	0	0	0	0	0	0
Board for International Broadcasting	37	0	0	0	0	0	0	0	0
Civil Aeronautics Board	431	1	.2	1	100.0	0	0	0	0
Commission on Civil Rights	1,679	195	11.6	0	0	195	100.0	0	0
Commodity Futures Trading Commission	1,808	14	.8	2	14.3	12	85.7	0	0
Community Services Administration	2,605	68	2.6	0	0	68	100.0	0	0
Consumer Product Safety Commission	1,092	4	.4	4	100.0	0	0	0	0
Environmental Protection Agency	38,416	556	1.5	12	2.2	546	97.8	0	0

FEDERAL PROCUREMENT DATA SYSTEM—FEDERAL CONTRACT ACTIONS $10,000 OR LESS AND SUBCONTRACTING TO MINORITY AND SMALL DISADVANTAGED BUSINESSES [1] BY EXECUTIVE DEPARTMENT AND AGENCY—Continued

[Fiscal year 1980, year to date]

	Total agency actions	Total minority disadvantaged		8(a) disadvantaged prime		All other minority prime		Subcontract [4]	
		Actions	Percent [2]	Actions	Percent [3]	Amount	Percent [3]	Amount	Percent [3]
Equal Employment Opportunity Commission	250	0	0	0	0	0	0	0	0
Federal Communications Commission	2,808	28	1.0	1	3.6	27	96.4	0	0
Federal Election Commission	868	7	.8	7	100.0	0	0	0	0
Federal Emergency Management Agency	4,087	34	.8	28	82.4	6	17.6	0	0
Federal Maritime Commission	222	0	0	0	0	0	0	0	0
Federal Mediation and Conciliation Service	669	0	0	0	0	0	0	0	0
Federal Mine Safety and Health Review Commission	0	0	0	0	0	0	0	0	0
Federal Trade Commission	4,594	22	.5	0	0	22	100.0	0	0
General Services Administration	288,478	2,933	1.0	477	16.3	2,456	83.7	0	0
International Communication Agency	23,688	54	.2	0	0	54	100.0	0	0
International Trade Commission	1,283	0	0	0	0	0	0	0	0
Interstate Commerce Commission	2,578	84	3.3	0	0	84	100.0	0	0
Merit Systems Protection Board	0	0	0	0	0	0	0	0	0
National Aeronautics and Space Administration	117,456	1,180	1.0	97	8.2	1,083	91.8	0	0
National Capital Planning Commission	234	2	.9	0	0	2	100.0	0	0
National Endowment for the Arts	774	5	.6	0	0	5	100.0	0	0
National Endowment for the Humanities	1,187	62	5.2	0	0	62	100.0	0	0
National Gallery of Art	0	0	0	0	0	0	0	0	0
National Labor Relations Board	0	0	0	0	0	0	0	0	0
National Mediation Board	273	0	0	0	0	0	0	0	0
National Science Foundation	1,260	45	3.6	0	0	45	100.0	0	0
National Transportation Safety Board	526	269	51.1	65	24.2	204	75.6	0	0
Nuclear Regulatory Commission	2,914	3	.1	2	66.7	1	33.3	0	0
Occupational Safety and Health Review Commission	205	0	0	0	0	0	0	0	0
Office of Personnel Management	11,402	198	1.7	0	0	198	100.0	0	0
Pennsylvania Avenue Development Corporation	539	29	5.4	0	0	29	100.0	0	0
Railroad Retirement Board	1,393	0	0	0	0	0	0	0	0
Securities and Exchange Commission	1,757	0	0	0	0	0	0	0	0
Selective Service System	326	5	1.5	0	0	5	100.0	0	0
Small Business Administration	9,053	85	.9	17	20.0	68	80.0	0	0
Smithsonian Institution	17,080	184	1.1	0	0	184	100.0	0	0

FEDERAL PROCUREMENT DATA SYSTEM—FEDERAL CONTRACT ACTIONS $10,000 OR LESS AND SUBCONTRACTING TO MINORITY AND SMALL DISADVANTAGED BUSINESSES [1] BY EXECUTIVE DEPARTMENT AND AGENCY—Continued

[Fiscal year 1980, year to date]

	Total agency actions	Total minority disadvantaged		8(a) disadvantaged prime		All other minority prime		Subcontract [4]	
		Actions	Percent [2]	Actions	Percent [3]	Amount	Percent [3]	Amount	Percent [3]
Tennessee Valley Authority	389,141	1,507	.4	0	0	1,507	100.0	0	0
U.S. Arms Control and Disarmament Agency	22	0	0	0	0	0	0	0	0
Veterans' Administration	1,833,105	25,984	1.4	546	2.1	25,438	97.9	0	0
Water Resources Council	93	0	0	0	0	0	0	0	0

[1] Concerns owned by minority women are included as minority businesses and as woman-owned businesses in special analysis 10.1.
[2] Percent of total agency.
[3] Percent of total minority/disadvantaged businesses.
[4] Data is not collected.

Mr. MITCHELL. There is a vote on to approve the Journal, and I always vote no because I haven't read the Journal from the day before so I will not bother to go through that silly little vote.

We will now hear from Mr. Victor Rivera, Director of the Minority Business Development Agency at the Department of Commerce. Thank you for taking the time to be with us today, Mr. Rivera.

TESTIMONY OF VICTOR M. RIVERA, DIRECTOR, MINORITY BUSINESS DEVELOPMENT AGENCY, DEPARTMENT OF COMMERCE

Mr. RIVERA. Mr. Chairman and members of the subcommittee, I appreciate this opportunity to discuss with you the Commerce Department's new approach to minority business development.

I have submitted a copy of my prepared statement for the record and would like, with your kind permission, to summarize that statement for you this morning.

Mr. MITCHELL. Without objection, the entire statement will be submitted for the record. We will enjoy your summary.

Mr. RIVERA. In the way of background information, Mr. Chairman, let me quickly review some basic facts and problems regarding minority business development. Minority business development in this country is characterized by low business ownership participation rate by minorities, a low growth rate or expansion rate, and a high failure rate.

These problems have not changed significantly over the last 10 years but because of these figures we view minority entrepreneurship as an underdeveloped, underutilized national resource, which, given the opportunity, can make significant economic contributions. Unfortunately, minority entrepreneurs, generally speaking, have to overcome some serious problems before they can make the desired economic contributions.

We find that minority entrepreneurs today are clearly at a disadvantage for lack of access to timely information about business opportunities. They are at a clear disadvantage in terms of lack of access to resources, both capital and managing technical assistance.

Minorities, as we know, are hurting because of the recession but minorities are also very much confused because of it, for lack of a better term, there is a fragmented, uncoordinated assistance program both in the public and private sectors.

There is also a perception problem. Minority assistance programs are often and unfairly viewed as wasteful, and nonproductive. In my view, unfortunately, this perception is sometimes shared by some minorities.

Before we try to do something about these problems, when I joined the Agency last April we proceeded to ask ourselves some basically hard, and possibly some long overdue questions. For example, who is responsible for minority business development in this country? What is the role and responsibility of the Federal Government? What is the role and responsibility of State and local government, of the private sector, of the minority community and its organizations and institutions and, very importantly, what is the role and responsibility of the minority entrepreneur?

Well, one very quickly comes to the conclusion or realization, given the task and limited resources, that minority business devel-

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opment should be a cooperative effort with shared responsibility and accountability.

We also ask ourselves some other questions. What resources are out there now to assist minorities? How can they be better leveraged? What additional resources are available? What entities are helping or supporting minority business development? What relationships, if any, exist between those entities and how can those relationships be strengthened?

The last question and possibly the most important is what results are expected from our efforts? What performance measurements will determine if we are accomplishing our goal?

If we are called the Minority Business Development Agency, shouldn't we be measured or held accountable for our ability to impact on the problems I mentioned earlier, mainly the low formation rate, the low expansion and the high failure rate, rather than on activities, number of business plans prepared or number of hours of managing and technical assistance provided?

So, based on that exercise, we developed a new goal last year which was to promote the formation and expansion of viable and competitive minority-owned businesses, and we agreed and understood that accomplishments would be measured by what impact, what results, what benefits the MBDA programs had and at what cost.

When I joined the Agency in April 1981, I had at least two major problems to contend with, problems that I had very little control over: One was a worsening recession that was disproportionately affecting minority-owned businesses; and the second problem was that the Agency was just beginning to implement a major assistance program, a general business service program that did not conform to our goals. We found ourselves with a goal and objectives but without a program that we could implement.

We had to wait 1 full year before we could implement our program. That funding cycle is just beginning to end.

I think this is very critical for the committee, as well as our constituency to understand. We recognize the problem.

I joined the Agency in the middle of the fiscal year, April 1981, a program that was just being implemented, moneys very much committed and tied up. We had to wait for that funding cycle to be completed. But during that past year we were in the middle. We set two major priorities for ourselves:

The first was to review and evaluate all MBDA programs and funded organizations to insure that they were being run effectively and efficiently, and that they were responsive to the needs of the minority business community and that we were complying with the intent of Executive Order 11265.

Unfortunately, as a result of that exercise of process, we had to drop or defund a number of organizations because of poor performance or nonperformance. Or in some cases there were serious problems of financial mismanagement or other audit or related problems. That obviously set us back because we lost access to some well-established networks. Our actions were also misinterpreted by the community or misreported.

We also had a problem of carryover moneys because we did not expend the moneys that we had budgeted but as a result of this

exercise, and I will be very honest with you, sir, if I had to do it again, we would still hold up moneys rather than plow out money at the end of the fiscal year for the sake of getting it out. But as a result of this exercise, we are now beginning to see much better performance and financial accountability by our funded organizations because of agency, as well as departmental, reviews.

Our second priority was to develop and implement a new, better coordinated Minority Business Development Agency program. This program would not only be coordinated, but would be more consolidated and would also deal with some of the problems that I mentioned earlier.

Also, this new delivery system would serve as a basis in the not-too-distant future for a consolidated Federal delivery system to assist minority entrepreneurs. There is an obvious need, a crying need to reduce unnecessary overhead and administrative costs wherever possible, and use the most dollars available for program delivery.

Last Friday, I was in Pittsburgh and announced the first in a series of Reagan administration initiatives on behalf of minority enterprise. For lack of a better term, we are calling it the new business development center program.

I would like to quickly review the functions of those programs, as well as what we think the benefits of this system are over the previous program. We are utilizing services of 100 management consultants throughout the country. Cooperative agreements were made on a competitive basis.

The BDC's, as we call them, are required to do, basically, three things. One is to develop and maintain three inventories: One, of minority entrepreneurs and their capabilities; second, an inventory of opportunity, business ownership opportunities, as well as market opportunities, public and private, domestic and international; and third, to develop and maintain an automated inventory of resources, capital, and management technical assistance.

All of the BDC's are connected or will be connected by terminals to headquarters. We have now four data bases that they will have available to them. Certainly the technology exists. We know that there are capable minorities out there. We know that there are opportunities out there even in the recessionary period and we certainly know that there are resources out there. There is capital out there both in the national basis and even international.

What we need is to concentrate that information. So, essentially, we view this whole process as one of information management, and concentrating that information.

What do the BDC's do with that information? They play a brokering or matching role. They take an opportunity, match it with a minority firm, provide the necessary capital and management technical assistance to create something, to make something happen, to actually make a difference.

The third thing they are supposed to do is to report results. We are not so much interested in activities anymore, or how many hours of assistance. What we want to know is, how many minorities did they actually put in business?

How many minorities did they help expand their operations? How many minority businesses did they save from failing, and how many jobs were created or saved as a result of that effort?

This is radically different than what we have been doing in the past.

The second report requirement is, we want them to report on what constraints they have experienced in terms of obstacles to minority business development in their community as well as recommendations for the resolution of those problems.

We have targeted, but not exclusively, four types of businesses we are interested in helping—those that have potential for high employment. As a result, we are pushing our acquisition program because we know that is one way of pushing employment, and have minorities acquire already established larger businesses.

We are promoting those types of businesses that can contribute innovative products or technologies. As a result, we are expanding our technology program.

We are interested in assisting those minority businesses that can promote export sales. We have a new export promotion program and we are also interested in assisting 8(a) firms that are graduated in that transitional year, 1 or 2 years before graduation. Now, these are targeted businesses. These are not our exclusive groups that we are after but we will concentrate on helping them.

We expect all 100 business development centers to be in place by the end of October. There is no way we could have done this program any sooner. We had to wait until the GBS contracts expired. We had obligations for the GBS operator. Between now and the end of October, we will have spent $35 million on this program. We will have heard that, as of April 30, we have a high percentage of moneys that we have not utilized. The reason is obvious.

We could not expend the moneys because the new program did not start until this month.

In October, we will have a conference of the 100 operators of the BDC. It will be the first time that we will have a national Conference of Operators of Business Development Programs. I would like to take this opportunity, Mr. Chairman, to invite you to speak to the group.

Mr. MITCHELL. I was about to ask not to speak but to be there.

Mr. RIVERA. Fine, certainly.

Let me quickly cover the benefits as well as the advantages that we see of our program over the former.

First of all, it would allow us, as well as the BDC's to measure leveraging capabilities. That is one of our major strategies—leveraging public and private sector money. We will have arrangements and each BDC will be asked to establish closely with the State government, as well as city governments.

We expect to have memorandums with 2,500 major corporations. Public and private sector sources are going to be expected to do two things: Identify opportunities for minorities, as well as identify resources. Take this to the BDC. We are looking for maximum local involvement of the public and private sector.

The second advantage is that we have new performance measurements. The centers will be measured by bottom line numbers,

how many businesses, how many expansions, how many jobs. We will hold these centers accountable.

Again, we are introducing other concepts. We will rank for the first time. We will know, for example, in Baltimore where the Baltimore BDC ranks among the 100. It is not a very difficult thing to measure. We know the inputs. The inputs are the funding levels that these awardees are given. The outputs are going to be businesses and jobs. We hope to rank them from 1 to 100. We are considering grading on a curve, if you will. At the bottom center, the least productive centers are going to be dropped or will have to go competitive.

This information will be made known to all that we will hold these BDC's accountable. Right now there is very little involvement or knowledge of our GBS program. That will not happen with the BDC.

There is also a new advocacy function. As I mentioned, the BDC's will be asked to hold quarterly meetings with the communities to identify specific constraints to minority development in that community and to make recommendations to us in Washington and again we will share those with folks in the White House and obviously we will share those findings and recommendations with your office.

Another advantage for the first time you will have, in fact, a true national network, all of those centers will be hooked up.

The technology certainly exists for us to do that, to share information, to identify opportunities in Washington, and to transmit that information via electronic mail, or what have you, in the 100 centers because the timeliness of information is extremely critical.

The BDC's will also afford us greater coordination because all of these programs, eventually all Federal programs, can eventually piggyback this program. The program is modular in concept. We can add on, in Baltimore or any other city, we can add onto the BDC's to do special outreach programs to involve minorities in enterprise or any other initiative.

What we are getting away from is increasing funding to different organizations. We need to reduce the overhead and administrative costs. Moneys will be funneled directly to the BDC's. They, in turn, if they cannot perform the function, will subcontract locally, a very important departure from the past.

What we are seeking also from the BDC's is continuity and certainly for the minority businesses. As I mentioned earlier, we were very much confused about Government delivery systems or assistance programs.

I want to go back also to the rationale which really deals with three problems that I mentioned earlier. For the first time we can report, I would hope 1 year from now on how many businesses we helped start, expand, how many we saved from failing, and how many jobs were created.

I think this is critical. We can do it by city or by State, and I am sure the Congressman will be interested in seeing how productive the BDC's are in their respective areas.

Then we will also speak to the issue of the problems faced by minority entrepreneurs, lack of access of timely information, lack of access to resources. While we have just began to conduct our pro-

grams in keeping with the new direction we are giving the agency, I would like to bring the subcommittee up to date on some of our other major research programs. While we are fairly confident that we have correctly identified the major causes of the low participation rate of minorities in opening firms, there currently are critical gaps in the data available about minority businesses.

To help plug the gaps, MBDA is conducting a responsive research program for the first time in 1982. All the announcements are out, and our staff is evaluating the proposals. Under this program we will conduct a series of research studies necessary for rational formulation of agency policies.

These studies will examine the economic characteristics of minority businesses and show how those firms interact with economic systems. In fiscal 1982, we are focusing on the economic role of minority businesses and the relatively low business formation rate.

Two areas in which we have the least data and understanding but which are critical to the creation of a vibrant minority business sector are State and local government programs. To increase the participation of minority businesses in the procurement of goods and services in the State and local government market, we are expanding our State and local government program. The State and local government market is about $280 billion. That is 2½ times the Federal procurement.

The 1982 report revealed that the minority share of this market is much less than 1 percent. We need to double or triple those figures and then we are talking about billions of dollars. We currently fund 17 States and 3 cities. We are expanding that next year to 30 States and 75 cities.

Mr. Chairman, I think I may be running over my time but another major accomplishment, I think, is our profile system. It is one of the most important mechanisms we develop to carry out completion of the Agency. When I joined the Agency last year we had some 3,000 minority firms in this automated system. We have now over 15,000 firms registered in the system.

I spoke to a focus on a number of minority programs. Our contention is that once we have the BDC that they will validate and verify the minority status.

I think we have all heard about a "rent the minority" type firm. We need to put an end to verifying and validating everyone in the system. Sometime in the not too distant future I think you will hear us proposing a minority set-aside program for minorities once we feel that the data that we have is valid.

Mr. MITCHELL. I hate to interrupt you but you will propose a minority set-aside program for minorities?

Mr. RIVERA. A set-aside program. There is a small business set-aside program. Why not a set-aside program for minority-owned businesses. We have a base of approximately 20,000 by the end of the year that will allow us that opportunity. I am not making that proposal right now, but we are exploring that possibility. The export program is another high priority. We are letting out awards now, $1.5 million for 15 consultants to assist minorities in 18 cities throughout the country to increase their exports.

I mentioned earlier the technology commercialization program. We are expanding that from 8 to 10; one of them is in Texas and

another in Illinois. In 1981, we generated almost $23 million in businesses receipts from minority firms.

Finally, I would like to bring you up to date on our activities as a lead member of the Interagency Council for Minority Enterprise.

IAC has been very active. You know the Secretary of Commerce has been personally involved. IAC has been able to support the governmentwide minority enterprise program. For example, the Market Development Committee of the IAC has developed broad policies designed to focus and coordinate all development programs and is working on establishing governmentwide agreement and legislative recommendations to the President concerning the definition of minority.

The Operations Committee has been active in designing a program evaluation and reporting mechanism to assess the effectiveness of IAC. Plans have also been developed to expand the field structure of Interagency Minority Business Opportunity Committees to support MBDA's and BDC's. The operation was also instrumental in our agreement on the profile system by SBA and MBDA.

The success of the IAC is illustrated by continued growth in procurement dollars obtained by minority businesses. In fiscal 1981, for example, this amount which includes procurements under SBA's 8(a) program reached $4.1 billion, and 98 percent of IAC established funds. This is an increase of almost $1 billion from 1980. I think also very importantly, I have seen the first quarter for 1982 and we are 25 percent ahead of the same period last year, over $1 billion compared to less than $800 million. So if those figures continue we will have another record year in 1982.

[The chart referred to above follows:]

SUMMARY OF FISCAL YEARS 1969–80 FEDERAL FUNDS OBLIGATED FOR MINORITY BUSINESS DEVELOPMENT

	8(a) procurement by Federal agencies	Direct and subcontract procurement by Federal agencies	Financial grants and loans and guarantees by Federal agencies	Fiscal year total
Fiscal year:				
1969	$8,884,141	$3,792,365	$200,000,000	$212,676,506
1970	21,814,292	8,220,042	315,236,045	345,270,379
1971	67,770,506	77,863,045	434,019,716	579,653,267
1972	142,319,905	242,254,264	472,617,473	857,191,642
1973	212,963,115	523,516,566	626,245,569	1,362,725,250
1974	272,141,414	429,224,781	466,019,448	1,167,385,643
1975	321,532,582	486,122,160	464,745,196	1,272,399,938
1976	368,914,488	465,453,693	538,816,600	1,373,222,781
Transition quarter	89,793,645	95,908,546	171,236,600	356,938,791
1977	516,671,633	535,028,400	852,049,010	1,903,749,043
1978	743,268,882	1,069,890,100	1,464,469,100	3,277,628,082
1979	1,018,231,173	1,466,049,599	1,838,414,937	4,322,695,709
1980	1,353,454,000	1,786,298,000	2,666,031,000	5,805,783,000
Total	5,137,759,776	7,189,659,561	10,509,900,694	22,837,320,031

Mr. Chairman, we are confident that with the new directions we are giving to MBDA it will enable us to better serve the minority business community hopefully much more effectively and efficient-

ly. Throughout my directorship we will periodically measure our performance to insure that we are on the right track.

If I may comment on that IG report that you mentioned earlier, I don't mind the criticism of the Agency, but bear in mind that the period covered was the 3 years prior to September 1981. Only 6 months of that period was during my time, and the report also mentioned that corrective actions have been taken in the small print at the bottom. So I use that report more as a checklist to make sure those types of activities do not occur.

I think we have instituted the controls in our Agency. The Department has instituted controls at the departmental level that we no longer fund organizations that are nonperformers. We have strengthened the monitoring, and have taken corrective action. In any case, I look forward to continually working with the subcommittee to help resolve the troublesome issues confronting the minority firms.

I hope to be a more frequent visitor to your subcommittee, Mr. Chairman, and now I will be happy to answer any questions you may have.

[Mr. Rivera's prepared statement follows:]

PREPARED STATEMENT OF VICTOR M. RIVERA, DIRECTOR, MINORITY BUSINESS DEVELOPMENT AGENCY, DEPARTMENT OF COMMERCE

I am pleased to appear before you today to discuss the operations of the Minority Business Development Agency (MBDA) and the effect of its programs on the development of minority business. In bringing you up to date on MBDA's activities, I would like to describe first our belief how MBDA can best serve the needs of the minority business community. Thereafter, I will provide you with a brief status report on our major programs.

NEW DIRECTIONS

Soon after taking office, this administration began systematic review of MBDA's programs to see if they were meeting our responsibilities under Executive Order 11625 in the most effective and efficient manner. Based on our analysis, we decided that our programs were not obtaining the results they should primarily because of the past failures to enunciate the Agency's goals and objectives and the consequent inability of the Agency to concentrate its activities to accomplish those objectives.

In redefining MBDA's goals, we first looked at the current state of minority business to ascertain the major problems confronting minority entrepreneurs. The latest data available from the Census Bureau show that minorities own businesses at a rate only one-fifth that of non-minorities—14 minority-owned for each 1,000 persons as compared to 63 businesses for each 1,000 nonminority persons. While minorities comprised 19 percent of the population in 1977, they owned only 6 percent of the number of firms and their firms received only 3.5 percent of the gross receipts.[1] Clearly, minorities are not participating in the free enterprise system to the extent their numbers would indicate they should. We believe MBDA's programs should assist minority businesses in increasing that participation rate. We have redefined our programs to help counter the principal causes of the low participation rate—relatively low business formation and growth rates, and a higher than normal failure rate.

The causes of the low business formation and growth rates and the high failure rate are many including: the absence of business role models; the low social status accorded to business ownership in the minority community; the lack of business knowledge; the restricted access to capital; and prejudices which limit the number of business opportunities.

The new directions we are giving to the agency will ensure that MBDA's resources are used in the most productive way to attack the problems and increase the opportunity for minority entrepreneurs to participate in the free enterprise

[1] 1977 Survey of Minority Business (issued in 1981).

system by forming and developing competitive firms. Consistent with the Administration's overall economic program, we will seek to increase these opportunities through private-sector involvement and entrepreneurial self-reliance. To carry out this mission we have established the following goals:

1. Encourage the formation of minority business by—

Matching minority entrepreneurs with market opportunities and providing information, resources, knowledge and skills necessary to start and manage a business; and

Investigating and developing alternative mechanisms to channel savings and wealth for equity investments in minority businesses.

2. Promote increased growth rates in minority businesses by—

Matching minority business capabilities with high growth market opportunities;

Increasing awareness and providing information about the risks and rewards of high growth business; and

Increasing minority business access to sources of capital.

3. Reduce failure rates by assisting minority businesses in planning and implementing sound, competitive strategies through—

Decreasing high debt dependence by providing greater access to equity capital;

Providing information and management assistance about alternative capital structures;

Promoting the growth of minority businesses to help maintain operations in periods of adversity; and

Providing minority businesses with management and technical assistance to help them solve specific problems.

Finally, we have evaluated our programs with respect to these goals and are now working toward accomplishing them.

STATUS OF MBDA PROGRAMS

While we have only just begun to conduct our programs in keeping with the new directions we are giving the Agency, I would like to bring the Subcommittee up-to-date on our major programs.

RESEARCH PROGRAM

While we are fairly confident that we have correctly identified the major causes of the low participation rate of minorities in owning firms, there currently are critical gaps in the data available about minority businesses. To help plug the gaps, MBDA is conducting a Sponsored Research Program for the first time in 1982. Under this program, we will conduct a series of research studies necessary for rational formulation of agency policies. These studies will examine the economic characteristics of minority business and how those firms interact with our economic system. In FY 1982, we are focusing on the economic role of minority businesses and their relatively low business formation rate—two areas in which we have the least data and understanding but which are critical to the creation of a vibrant minority business sector.

At this time we are on schedule with the FY 82 program. We initiated the program under a competitive procurement process and we solicited proposals in the Commerce Business Daily on March 12 with a closing date of April 15. Proposals were then subjected to two levels of evaluation for technical merit and policy relevance. The technical panel included economists and program specialists from MBDA and representatives from academia, minority business organizations, and the Small Business Administration. While it is premature to discuss the results of the selection process at this time because of procurement regulations, we can assure the Subcommittee that we were able to attract some of the best individuals and institutions with experience in the field.

BUSINESS DEVELOPMENT CENTER PROGRAM

MBDA has designed and begun implementation of its new Business Development Center (BDC) Program, the Agency's primary mechanism to assist minority businesses. The concept behind the BDCs is to develop a national network of centers to provide minority-owned firms and individuals with comprehensive assistance. In the past, federal government agencies, state and local governments, and the private sector have attempted to implement minority enterprise development programs independently of one another. Assistance under those programs includes financial assistance through loans and guarantees, bonding and procurement assistance, management and technical assistance, bid preparation assistance and assistance in the

identification of business opportunities. The BDC program has been designed to coordinate within a geographic area all resources of minority business assistance within one Business Development Center.

The primary activities under the BDC program will be to assist minority businesses by:

Developing inventories of minority-owned firms, procurement and contract offices, and capital sources;

Matching qualified minority firms with business opportunities;

Providing management and technical assistance as needed;

Leveraging federal funds with other non-federal and private sector funds;

Assisting the local minority business community in advocacy by identifying and removing restrictions and barriers which impede the formation, expansion and survival of minority businesses;

Promoting non-minority private sector involvement in the local minority business effort; and

Providing specialized consulting services to meet special needs of minority businesses.

Each center will act, in effect, as a resource manager of programs and information available to minority businesses in a given geographic area. Plans are to provide access to all MBDA programs in the initial BDC, with future plans to incorporate other federal agency initiatives. All other MBDA programs are being modified this year to support the BDC network by identifying resources and information, and by referring clients to the centers.

MBDA is making cooperative agreement awards on a competitive basis to qualified consulting firms to establish 100 BDCs in 95 geographic areas. At least one award will be made in each of these SMSAs, with additional awards in New York, Los Angeles and Chicago.

The selection of the BDC sites is based on the 95 SMSAs having the larger minority population. Applicants are required to compete for awards by responding to Standard Request for Applications which spell out work requirements and minimum performance levels. Funding levels for the BDCs will range between $153,000 and $1,120,000 and will require a minimum cost-sharing contribution of 10 percent.

For the first time, the Agency is requiring all clients receiving management and technical assistance to pay a nominal fee for the assistance provided. In this first year, BDC's will bill clients at a standard rate of $2.50 per hour of assistance for client firms with gross sales of under $500,000 and $6.25 per hour of assistance for client firms with gross sales in excess of $500,000.

We are instituting a fee for services to strengthen the relationship between the client and the consultant and to eliminate frivolous assistance requests. In addition, we believe the fee will encourage greater feedback on the quality of management and technical assistance provided, as well as generate additional funds to provide further assistance. I would note however, that these fees can be waived if a minority business client cannot afford the minimum fee.

MBDA will also be establishing 7 Indian Business Development Centers (IBDC) to provide the same type of services to meet the needs of tribal-owned and Indian-owned businesses.

As of this date, we have awarded 19 cooperative agreements for BDCs. Of the nineteen, more than half were made to minority firms. In addition, we have awarded three cooperative agreements to fund Indian BDCs.

For rural areas not served by the BDC network, MBDA has established a Rural Assistance Program to provide management and technical services to minority businesses and individuals located in these areas. This program will start September 1, 1982 and at the outset will provide services in ten States. Both the SBA and the Farmers Home Administration will assist us in obtaining promising referrals.

STATE AND LOCAL GOVERNMENT PROGRAM

The State and Local Government Program is designed to increase the participation of minority businesses in the procurement of goods and services in the state and local government market. There are approximately 80,000 state and local government purchasing agents who are responsible for an estimated $280 billion in the procurement of goods and services annually. This figure vastly exceeds the total Federal procurement, which was $120.6 billion in 1981 and which includes military and high technology purchases which are generally less accessible to minority businesses.

The state and local government market is characterized by thousands of individual procurement systems which offer a jumble of confusing and contradictory re-

quirements. Thus far, minority businesses have not done well in this market. A 1982 report by the National Institute of Governmental Purchasing, Incorporated, revealed that the minority share in this market may be approximately one-tenth of 1 percent of total available procurement dollars.

MBDA funds 17 state and 3 city offices to support the DBC network and assist in the targeting of State and local procurement opportunities and the identification of the available skills which are being solicited. These organizations are also expected to take an aggressive role in identifying and coordinating Federal and private sector initiatives in order to create a truly comprehensive and statewide program for minority business development. For fiscal year 1983, the Agency intends to expand its State and Local Government Program activities to cover 30 States and 75 cities.

PROFILE SYSTEM

One of the most important mechanisms MBDA has developed to carry out its mission is the PROFILE System. The PROFILE System is an organized, automated collection of information about minority vendors. It represents a basic data base about the clients of the agency and is designed to meet a wide range of MBDA programmatic and management responsibilities. For example, the system is used for such activities as business brokering by the BDCs and providing information about MBDA programs and clients. It has been used to satisfy over 300 requests from the public and government agencies for the identification of minority firms for procurement opportunities. In addition, statistical distributions garnered from the system have been used by MBDA to direct and target its programs, such as the Acquisitions Program, the Minority Export Development Consultant Program and Capital Development Program.

Currently, the PROFILE system contains over 15,000 firms. During the next year, it will grow to well over 20,000 firms. We have met with SBA and will link the PROFILE System with the SBA PASS System so that minority firms will need to register only once to be included in both systems.

EXPORT PROGRAM

In the area of exports, MBDA is conducting a program to help minority businesses enhance their export capabilities. In fiscal year 1982 MBDA will award $1.5 million in financial assistance through the Minority Export Development Consultant (MEDC) Program. The deadline for submitting applications for the program was May 7, 1982 and we received over 150 applications from across the country. Review panels were convened in the six regional offices to review the applications, and submit their recommendations to MBDA Headquarters by June 18. By August 1, 1982, MBDA will select 15 consultants for awards of $100,000 each in 18 selected cities across the United States. These consultants will provide assistance to minority-owned firms in developing export marketing plans, identifying potential markets and specific leads, and in providing technical assistance needed to complete international transactions. This program is expected to generate $15 million in new export sales and contracts for minority businesses over the 12 month pilot effort.

TECHNOLOGY COMMERCIALIZATION PROGRAM

In order to assist minority firms in penetrating high-growth technological fields, MBDA is conducting a Technology Commercialization Program (TCP). The goal of the TCP Program is to help identify technologies which will enable minority firms to participate in technology-based industries and high growth industries—areas which minorities up to now have seldom penetrated. This program helps minority businesses to gain access to these markets with commercial potential and to locate financing for new product development. In fiscal year 1981, the eight Technology Commercialization Centers funded by the program helped generate $22.8 million of business receipts for minority firms. In addition, the centers are currently sponsoring 60 commercialization projects. The program draws nationwide support from a growing list of resources that now includes almost fifty Fortune 500 companies and twenty Federal agencies. We are in the process of establishing two new technology commercialization centers, one in Texas and one in Illinois.

INTERAGENCY COUNCIL FOR MBE ACTIVITIES

Finally, I would like to bring you up to date on our activities as a member of the Interagency Council for Minority Business Enterprise (IAC). The IAC is chaired by Secretary Baldrige and includes as members 26 Federal agencies with major procurement authority, each of which has signed an agreement to cooperate with this

program under Executive Order 11625. IAC activities are focused in four areas: market development, capital development, management development, and field operations and evaluation.

MBDA provides staff support to each of four committees with responsibilities in these areas. I am Executive Director of the Council and four senior members of my staff serve as Executive Secretaries for the four committees.

The IAC has, in recent months, been actively reviewing the programs the Federal Government established to assist minority business, and is considering new policies that may be needed to strengthen or improve this effort. The Executive Committee of the Council met with Secretary Baldrige in March 1982 to submit their plans for Council activities. Secretary Baldrige approved their plans and called for action from all IAC members to cooperate with President Reagan's goal of economic recovery, of which minority business is an important part.

The IAC has been able to map out programs designed to support a government-wide minority enterprise program. For example, the Market Development Committee has developed broad policies designed to focus and coordinate all development programs and has been working on establishing governmentwide agreement and legislative recommendations to the President concerning the definition of "minority." The Operations Committee has been active in designing a program evaluation and reporting mechanism to assess the effectiveness of IAC activities. Plans have also been developed to expand the field structure of interagency Minority Business Opportunity Committees to support MBDA's network of Business Development Centers. The Operations Committee was also instrumental in completing our agreement to cooperate on the PASS and PROFILE systems managed by SBA and MBDA, respectively.

The success of the IAC is illustrated by the continued growth of procurement dollars obtained by minority businesses. In fiscal year 1981, this amount—which includes procurements under SBA's 8(a) program—reached $4.1 billion and 98 percent of the IAC established goals. This amount represents an increase of almost $1 billion from 1980. When loans, guarantees and grants to minority businesses are included, the amount in 1981 was $7 billion, up from $5.8 billion in fiscal year 1980.

The next plenary meeting of the IAC is planned for mid-July 1982. All members will convene to assess fiscal year 1982 accomplishments and work out agreements for government-wide minority enterprise goals for fiscal year 1983.

Mr. Chairman, we are confident that the new directions we are giving to MBDA will enable us to serve the minority business community much more effectively. Throughout my directorship, we will periodically measure our performance to ensure that we are on the right track. I look forward to continuing to work with the Subcommittee to help resolve the troublesome issues confronting minority firms. I will be happy to answer any questions you have.

Mr. MITCHELL. Thank you very much for your testimony; it was good testimony.

Let me say from the outset that the IG report was in no way to be a condemnation of you. Much of this did occur before you got on board. However, in light of the massiveness of the problems that were disclosed by the IG report and in light of your new, ambitious program to make MBDA work, I think it would be foolhardy to add the 8(a) program onto your operation now.

You have not had the time nor perhaps the manpower to clean up what was a mess and I certainly do not have the manpower, in my opinion, to fully implement this very ambitious program that you outlined before, and therefore I will adamantly oppose, at this time, any effort to merge the 8(a) program into your operation.

Let me congratulate you on your targeting the businesses that you chose to target. I think the criteria of the targeting makes excellent good sense.

I am still appalled by the fact that 8(a) firms were forced to be graduated, no bridge, no protection, just thrown out there, sink or swim, and the fact that our targeting this on those firms to be graduated and the other criteria that you have is very, very encouraging to me.

I am a little concerned about these figures that I have here from 1971 to 1981. In terms of the number of clients served by MBDA. Let me get to my other point first.

I think MBDA made a ghastly mistake a year or so ago when it opened up all of these business development centers for competitive bidding.

Mr. RIVERA. General Business Service Centers.

Mr. MITCHELL. For competitive bidding. I think that was stupid. I told them at that time it was stupid because what the net result would be was simply that the minorities that were running these firms, some of whom had an excellent track record would simply not bid competitively against the big firms, such as Commercial Credit and others that came in, and that is exactly what happened.

Mr. RIVERA. I think you will be happy to learn——

Mr. MITCHELL. I was going to say I am very pleased that you are moving away from that direction there because it was a ghastly and stupid mistake that was made.

Mr. RIVERA. The problem was not so much, Mr. Chairman, that we went the competitive route but with the evaluation criteria. I think we did not give enough credit or points to a sensitivity to the community and knowledge of local conditions.

Mr. MITCHELL. The good track record that had been established by some of these firms.

Mr. RIVERA. I think you are going to be very pleased at the results of the minority participation in the BDC program. I would not be surprised if at least two-thirds of them are minority-operated.

Mr. MITCHELL. That is excellent because what occurred last year was we went down to almost zero or close to it.

Let me get back to this chart that I have in front of me which traces from 1971 to 1981 the performance of the Minority Business Development Agency.

[The chart referred to follows:]

MINORITY BUSINESS DEVELOPMENT AGENCY, HISTORICAL REVIEW OF AGENCY PERFORMANCE,[1] FISCAL YEARS 1971–81

	Fiscal year—											
	1971	1972	1973	1974	1975	1976	Transition quarter	1977	1978	1979	1980	1981
Number of clients	12,000	15,637	20,600	24,683	33,137	43,880	7,069	43,516	43,393	32,492	25,804	19,586
Number of business clients					14,912	23,402	3,382	21,947	21,864	17,227	15,290	10,713
Number of financial packages approved	1,117	1,540	3,225	4,597	5,008	5,689	1,440	6,252	5,589	4,768	4,322	1,953
Amount of financial packages approved (millions)	$47.5	$83.0	$158.3	$200.8	$244.8	$329.016	$100.643	$349.345	$377.365	$373.0	$364.271	$198.8
Number of procurements			1,400	3,824	5,708	7,121	1,697	9,107	11,811	8,926	8,749	3,594
Amount of procurements (millions)			$126.6	$252.6	$433.6	$486.231	$107.801	$735.862	$794.008	$691.274	$882.758	$435.3
Dollar outlays (millions, if available)	NA	$3.1	$28.6	$37.2	$41.3	$27.217	$6.802	$33.249	$36.560	$34.542	$37.096	$27.724
Total hours MSTA	NA	NA	NA	NA	505,419	735,113	10,514	815,425	814,873	965,467	784,637	484,974
Average hours MSTA	NA	NA	NA	NA	15	17	2	19	19	30	30	25

[1] Fiscal year 1972 data prepared by manual reports. Fiscal years 1973–74 data provided from client data reports. Fiscal years 1975–80 data provided by business assistance reports (BAR). Fiscal year 1981 report includes data provided by both the bar and business development report (BDR) systems.

Mr. MITCHELL. The high point in terms of the number of clients served came in 1976 when 43,880 clients were served. Since 1976, we have seen almost a consistent decline so that when we look at 1981 the number of clients is 19,586. The number of financial packages, the high point came in 1976 with 5,609 to 1981 where it was reduced to 1,953. The amount of financial packages approved—1976 was the high point year—was 329. When we look at 1981 it is down to $198.8 billion.

Who was in in 1976? Who was running this show? It must have been somebody fairly good?

Mr. RIVERA. The last year of the Ford administration.

Mr. MITCHELL. Oh, it was a political year. I take that back. I withdraw that statement. The amount of procurements in 1976 was $4 million, $6 million, and that is down in 1981. What is your explanation for this?

Mr. RIVERA. I can't justify or explain for that. I have a very serious problem with those figures. I share your concern. But more important than that, all of those figures indicate activity. They do not really demonstrate what actions were taken to resolve the fundamental problems faced by minorities: Lack of participation in a free enterprise system.

Mr. MITCHELL. I am glad you mentioned activities because you said you don't want to look so much at activities but I think you have to look at the activities, that is the only way you are going to get to measure what you really want to measure.

Mr. RIVERA. Our report next year obviously would have to include that, because obviously that is how firms expand.

The bottom line figures you will see beginning next year will be the number of new businesses actually started and how many businesses were saved.

Mr. MITCHELL. And acquisitions?

Mr. RIVERA. Yes, export sales.

Mr. MITCHELL. You are very strong on acquisitions. I agree with you. I think that is a very fruitful field.

How many acquisitions have taken place?

Mr. RIVERA. I think there were about 4 or 5 last year and about 10 or 12 in the process now. Obviously, the economic period does not lend itself for that but one of the problems in the past is that the GBS program was not really involved with the acquisition program. That has been a major fault of the Agency.

Our programs have not been linked together. In the future now there will be 100 outlets for acquisition programs. We are talking now or will be talking with the folks at the SEC who have agreed to make available to us or at least are exploring advance notice on divestitures. That is the type of information that once we get it we will communicate to 100 centers throughout the country immediately. That will increase tremendously the opportunity for minorities to take advantage of that.

Mr. MITCHELL. Provided you have facilitated access to capital?

Mr. RIVERA. Oh, yes, I think for much too long, one of my concerns on those figures on procurement or capital or what have you, is that in the past we may have been putting people in business who we should not put in business, because we did not provide them with comprehensive services. In other words, maybe a grant

or maybe helping them get a loan but did not assure that they had the necessary management, technical assistance, and the contracts to repay the loan. We talk about capital being the critical problem. I think the lack of market or sales right now is the principal problem that minority businesses face.

Mr. MITCHELL. Yes.

The President has made several statements and I understand he is to make some more in terms of his support for minority business. Yet, there was a little story in the paper that said the President was irked by a recommendation that the goals for minority businesses in terms of Government procurement contractors be reduced. Do you know who made that recommendation? Where did that come from?

Mr. RIVERA. I am participating in a work group in the Cabinet council and trade and the recommendation had been approved by the Cabinet council to recommend to the President that he increase or direct the agencies to increase their goals by 10 percent.

Mr. MITCHELL. Well, then the story in the press was wrong. Is that what you are saying? The press account said that a recommendation had been made to lower the goals, to reduce the goals and this irked the President because he had made several pronouncements about his commitment to minority business, and I was trying to get at who made that recommendation that the goals be reduced?

Mr. RIVERA. Unfortunately the agencies themselves, working with the SBA their goals were, I believe, $3.7 billion, which was less than the actual goals established last year. We took exception to that.

Mr. MITCHELL. Then this was sort of a consensus among the agencies, that they wanted their goals reduced within the Agency?

Mr. RIVERA. Unfortunately, yes. That does not mean that's what will probably happen. We will exceed our goals by that much more this year. The figures so far this year for the first quarter, which is traditionally the lowest quarter, were over $1 billion already.

Mr. MITCHELL. It was the Secretary of Defense, the Secretary of Interior, and the Secretary of HUD—all those people got together and said we want to reduce our goals.

Mr. RIVERA. Not all of them. Traditionally, people during the goal-setting process try to get by with the lowest possible goal, because if they exceed it, it will make them look that much better.

I know the Department of Defense figures came in lower than we would have liked them to come in, and would have expected. That issue was addressed at the IAC meeting and I saw Secretary Baldridge speak to Mr. Carlucci and say, "Frank, why don't you take a look at those figures?"

Mr. MITCHELL. Frank did?

Mr. RIVERA. I think he is still looking.

Mr. MITCHELL. Still looking?

Mr. RIVERA. If he gets a notice or a letter from the President I think he would stop looking.

Mr. MITCHELL. I think it would be a nice thing for the President to say his administration is committed to ever increasing the participation, and that he will simply not brook any decrease.

You said an enormous amount of work is being done. I just went through a little contretemps in my district that I had to picket city hall. I am much too old to be on a picket line but they contracted to renovate a historical black high school that was there with absolutely minimal participation for minority contractors. We changed it around. I think we ended up with 20 percent of the contract going to minority. Obviously, I can't be at Annapolis or any of the other State capitals. I would like to, but I am not cloned.

How do you propose to deal with this? It is about one-tenth of 1 percent with regard to State and local contracts that go to minorities. How do you propose to change this around?

Mr. RIVERA. We have been working with 17 States to the present time, but part of the problem, as I said before, is it is a very disorganized and uncoordinated process. In the future, the States will be required basically to do two things with the Business Development Center where this takes place. Understandably very little or no business development takes place at Commerce or our regional office. It has to take place in the community where we need the activities of a broker, if you will.

What we have done in the past, basically, is in the case of New York. For example, we funded New York State to identify minority firms and identify procurements.

We funded New York City to identify minority firms and to identify procurements. We have four or five funded organizations, a trade association and everybody did their own thing, so to speak.

It is a very uncoordinated program. From now on, all the business development activity will take place at the BDC. The State governments will receive moneys and the city governments will receive money to do two, maybe three, things: One, to identify procurement opportunities and refer them to the center. The minority business firm should have only to go to one place, a focal point, and what we want to do is make the centers really an attraction or focal point for the minority entrepreneur, and I use that word advisedly. The entrepreneur is a person who can take an opportunity and make something happen where you don't have to hold his or her hand all the time.

So States and city governments will be contracted or receive assistance from us and identify opportunities and take it to the center and also to do something else that is very much needed and that is to appoint somebody, an ombudsman or somebody like that when an individual is having a problem with procurements at the State or local government or needs information or explanation. He or she will go to that one person, and not get the runaround in dealing with many agencies within the State government.

Mr. MITCHELL. I must say that I have been thinking long and hard about this problem. It is my opinion that much of the State and local government contracting utilizes Federal dollars, and we need to look again at existing laws to see how they can be modified or improved. I just feel that it is wrong for a State to get a sizeable amount of money to do some particular contract—a sizeable amount of Federal money—and then not be in any way bound to utilize minority businesses. Yours is by persuasion, I think. You are suggesting but I am thinking more in terms of putting some more teeth into some laws.

Mr. RIVERA. Yes; this is an activity that will hopefully be generated at the State and local level. You heard me say this before, Mr. Congressman, that we need to get the minority businessperson organized politically to hold his or her elected officials accountable at the State and local level.

Mr. MITCHELL. Thank you very much for your testimony. I have several other questions.

Again, I will submit them to you in writing and ask unanimous consent that all the members of the subcommittee would be able to do the same thing.

Mr. RIVERA. Thank you, sir.

Mr. MITCHELL. Our next panel, No. 2, consists of Mr. John Hall, president of Mark Battle Associates, Inc., and Mr. Dennis Brownlee, president of Advance, Inc.

Gentlemen, my usual apology for asking you to come away from your day-to-day activities but this is the only way that I think that Congress can find out precisely what is going on is by having you as experts come in and give this testimony. We are grateful that you have taken the time to be here and I think we can proceed.

It is good to see both of you again.

PANEL CONSISTING OF JOHN HALL; AND DENNIS J. BROWNLEE

TESTIMONY OF JOHN HALL, PRESIDENT, MARK BATTLE ASSOCIATES, INC.

Mr. HALL. Mr. Chairman and members of the subcommittee, my name is John Hall, president of Mark Battle Associates, a member of Progress, Inc., and The Black Presidents' Roundtable Association.

I very much appreciate your invitation to appear this morning to testify on the subject of minority business development programs and their implications and vital importance in economically depressed communities. I would like to submit my entire statement for the record, Mr. Chairman, and summarize it for the record.

Mr. MITCHELL. Without objection, the entire statement will appear in the record.

Mr. HALL. Research which I recently conducted on behalf of these two minority business trade associations leads me to use this time to make the case for four specific goals for minority business development policy and programs throughout the Federal Government. These recommended goals for the Federal Government are that it should:

Provide incentives, policies and programs for increasing the number of minority-owned businesses.

Provide incentives, policies and programs for increasing the number of fast growth minority-owned businesses in the high technology industries which tend to generate jobs at a rapid rate.

Facilitate the development of well-planned, controlled businesses environments such as industrial parks and employment centers in low-income areas—exclusive of the planned enterprise zones—which effectively reduce the costs and the risks of doing business in those areas, and

Provide incentives, policies and programs for minority businesses as well as nonminority businesses to locate in or near minority communities—again, exclusive of enterprise zones.

I also would like to recommend that the Federal Government take steps to effectively implement existing legislation and programs as initially designed by legislation which would effectively reduce many of the artificial barriers to minority business development.

Specifically, I am referring to artificial barriers such as the cost of equity capital, the cost of seed capital, the poor image of minority businesses, and the poor image of many of the minority business programs. The poor image of the programs leads many Federal bureaucrats to have no interest in promoting them; it leads to bureaucratic delays; and it eventually reduces the amount of access minority businesses have to the Federal procurement markets.

The reasons for promoting the above policies and programs are compelling. It is quite tempting in this recessionary environment to blame the dismally high minority unemployment rates on cyclical factors which are expected to correct themselves when the entire economy recovers. The facts are overwhelming, however, that minority American unemployment, particularly black unemployment concentrated in our central cities, is not in fact cyclical but is emerging as a permanent dependent sector of our population which is increasingly desperate for sources of self-sufficiency. We need no innovation in this society to design the model source of self-sufficiency, that model is the small business.

Historical trends indicate that a strong economic recovery will only disproportionately help minorities. During the economic growth period from 1975 to 1979, when the official nonminority unemployment rate decreased from 7.8 percent to 5.1 percent, or by 34.6 percent, the official black unemployment rate dropped from 13.9 percent to 11.3 percent or by only 18.7 percent. We benefited at about half the rate of the larger society.

More significantly, however, the unofficial black unemployment rate has not been under 20 percent in the past 5 years, this rate includes those who want a job but no longer are actively seeking one as well as part-time workers who want full-time work. This rate currently exceeds 29 percent.

Historical trends further suggest that the problem of minority unemployment is likely to be even more severe in the future than it has been in the past. Not only has the Government sector been contracting and laying off workers in recent months, but trends in the location decisions of large manufacturers as well as small businesses suggest that the jobs are going in one direction and minorities are going in another.

According to David Burch of MIT, large U.S. manufacturers which used to locate primarily in major metropolitan areas are increasingly relocating in remote areas. Contrary to popular belief, small businesses are the primary source of jobs for minorities and are the dominant creator of jobs in central cities. However, most small business startups—startups are the source of a high percentage of new jobs—are now in the suburbs as opposed to the central cities.

In contrast to nationwide patterns, preliminary 1980 census data indicate that black Americans are continuing to concentrate in the central cities of metropolitan areas.

As programs providing relief to the dependent are decreased, and the size of the dependent population increases, the need for simultaneous programs of development targeted to that population is clear.

With respect to the minority business development, as indicated by Mr. Rivera, there is still an unfortunate lack of data describing the condition of minority businesses. However, available data indicates that minority-owned firms provide jobs for less than 1 percent of the labor force, yet minority Americans account for more than 20 percent of the population. These percentages represent an important opportunity for minority business development policy, for the underutilized capacity in the minority business community represents a tremendous frontier of development, an underutilized source of job creation, innovation, entrepreneurial creativity and competition in an economy facing massive needs for economic stimulation in the central cities.

Because of this underutilized capacity the minority business sector represents a growth market which can grow much faster than the larger economy. Specific policies and programs which deserve immediate attention by Congress and the administration include the following:

Tax incentives should be implemented that encourage investments in small businesses in general and minority businesses in particular.

Federal Government policy should encourage the continued expansion of participation of all minority-owned firms in Federal procurements by all Federal departments and agencies.

Federal Government policy should specifically promote the use of non-8(a) minority-owned firms as legitimate Government contractors. I make this recommendation because it is clear that the entire minority business community cannot get its needs for Federal Government procurements satisfied through the 8(a) program. There are just too many firms to service.

Further, Government policies for stimulation of the economy should include carefully targeted and complementary programs specifically designed to stimulate the increasingly economically depressed minority communities.

The Federal Government should allocate a greater percentage of its research and development funds to small businesses in general and minority businesses in particular to stimulate more successful high-technology small businesses which tend to result in fast-growth firms generating new permanent jobs at a high rate.

The technology commercialization program of the Minority Business Development Agency should be expanded to become a major focal point for minority business development. I understand that it is now being expanded to two additional cities. We would like to see it expanded in each of its current locations.

The importance of and the potential benefits to the national interest of a strong and healthy minority business community should be carefully articulated and widely disseminated to Federal Government officials and to the media.

The mergers and acquisitions program of the Minority Business Development Agency should be monitored as a potential focal point for minority business development.

Minority business development policies should be developed and implemented in coordination with overall small business development policies, as well as with the overall Government policies for the revival of the U.S. economy.

A review of the 8(a) program of the Small Business Administration is instructive as it relates to how the Federal Government approaches developmental needs of minorities. I focus on the 8(a) program for a purpose. It is clearly a controversial program that has been the subject of a great deal of uncomplimentary publicity. My research on the program revealed:

The difficulties have been widely disseminated, but the notable accomplishments of the 8(a) program are not well known, are not understood, and are not appreciated because the 8(a) story has not been conveyed to the public in a balanced way. Numerous studies have been conducted that highlight the positive and negative aspects of the program.

The following positive factors are not widely known. The 8(a) program has been effective in: providing otherwise inaccessible management experience to thousands of minority-owned firms; providing thousands of minority firms with access to an otherwise largely inaccessible Government procurement marketplace; providing track records for 8(a) firms; helping many firms qualify for non-8(a) Government and commercial work; illustrating to many skeptical Government officials that minority firms can perform effectively, and providing a variety of types of satisfactory technical and financial assistance to participant firms.

I won't read the entire list but one item I would like to put a little focused attention on is that the 8(a) program has increased the capacity of minorities to manage self-sufficient businesses. Again, the only way to increase the self-sufficiency of the minority community is to increase the quality, quantity, and size of those units of self-sufficiency. Additionally, and only with better respective management teams can minority businesses expect to attract that critical capital that is required to manage the faster: growing businesses. The faster a firm grows, the more new employees it adds, but the more likely it is to need outside capital. Outside capital will not be available to firms that do not have experienced managers. So the 8(a) program is providing, up to 10 years of management experience to minorities who otherwise may not have access to those opportunities. Based on the types of developmental needs which exist in minority communities, particularly the absence of sizable programs that help minority entrepreneurs to gain valuable management experience, it becomes clear that the 8(a) program is the most effective Federal mechanism developed to date to increase the market share and viable participation of minority Americans in the U.S. economic mainstream.

Other important findings of the research are as follows:

Noted authorities indicate that SBA's size standards for all small businesses are unrealistically low. SBA size standards should be revised and indexed up or down to reflect a reasonable combination of the standards of the private sector. Termination from the pro-

gram should not be based on a change in the "economic or social disadvantage" of the owner.

The abrupt termination of the top 50 8(a) firms before a realistic assessment of size standards or "competitive viability" defeats the objectives of the program and may permanently injure some of the minority business community's fastest growing companies.

Mr. MITCHELL. Do you support the transition at this time, under the current circumstances?

Mr. HALL. No.

Again, the planned transition of 8(a) and other program responsibilities from SBA to the Department of Commerce is acknowledged. It is just hoped that if there is a transition, and if it is effective, that it comes in time, because, as you are quite aware, Mr. Chairman, many of these larger firms are facing termination within the next 12 months.

The criteria for achieving "viability" in the 8(a) program should be defined by SBA in a manner which reflects the meaning of the term in the "subjective" private sector financial markets. If a firm cannot obtain the type of financing it needs at the stage of development it is in, it is not viable. The criteria should not be complicated. The following criteria are recommended:

Profitability: A firm that cannot demonstrate an ability to make a profit cannot attract capital. Profitability has not been a major factor in 8(a) criteria. It is recommended that firms should not be allowed to ascend to tier two (of a two-tier 8(a) program described in my prepared statement) until they have recorded a profit for 2 consecutive years, as reflected in certified financial statements.

Sales: In order to become "competitive," 8(a) firms must demonstrate an ability to acquire non-8(a) sales. It is recommended that firms should not be allowed to ascend to tier two until they have recorded a negotiated non-8(a) sales level of 5 to 25 percent of total sales (at the discretion of SBA) as reflected in certified financial statements. Firms also should be ineligible for tier two until company sales have exceeded 50 percent of the "revised and realistic" size standards for 2 consecutive years.

Access to capital: The final stage of development in the maturity of a firm to the state of inability is the successful attraction of equity capital. Only providers of equity can fairly assess the potential of firms to acquire equity. It is recommended that all 8(a) firms in tier two be evaluated by any SBA-funded MESBIC or SBIC each year and informed of deficiencies which must be corrected and norms which must be achieved before equity capital would be a realistic possibility.

Once a firm completes a public equity offering, it must be graduated from the program within 6 months.

SBA should compile and widely disseminate to all Government procurement offices, to the appropriate media and to all 8(a) firm participants, a document which clearly explains the program, its cost-effectiveness, its accomplishments, and its present and future benefits to society.

In summary, I wish to state that Federal Government policies seriously need to reflect an appreciation for the importance of interlocking linkages between recovery of the U.S. economy, revitalization of economically depressed areas of our central cities, high mi-

nority unemployment rates, and minority business development programs.

Each minority business is a unit of capacity for minority self-sufficiency. Expanding minority businesses, therefore, expands the minority community's capacity for self-sufficiency.

Failure of the Government to exploit this frontier of underutilized capacity through cost-effective minority business development programs perpetuates the disproportionate dependence of minority Americans on the larger economy for jobs and income supports.

Thank you, Mr. Chairman.

Mr. MITCHELL. Thank you, Mr. Hall. That was excellent research.

[Mr. Hall's prepared statement follows:]

PREPARED STATEMENT OF JOHN HALL, PRESIDENT, MARK BATTLE ASSOCIATES, INC.

My name is John Hall. I am president of Mark Battle Associates, Inc., and I am a member of Progress, Inc., and the Black Presidents' Roundtable Association—two minority business trade associations. My background includes more than ten years of consulting in urban economic development, with particular emphasis on small business development. I have recently conducted specific research on the 8(a) program of the U.S. Small Business Administration and its importance as a component of a national minority enterprise development policy, resulting in the document, "A Case for Government Support of Minority Enterprise," August 1981.

I appreciate your invitation to appear this morning to testify on the subject of minority business development programs and their implications for the revitalization of economically depressed communities.

The research which I have recently conducted on behalf of two minority business trade associations leads me to use this time to make the case for four specific goals for minority business development policy and programs throughout the Federal Government. These goals are as follows:

The Federal Government should:

Provide incentives, policies and programs for increasing the number of minority-owned businesses;

Provide incentives, policies and programs for increasing the number of fast-growth, minority-owned businesses in the high technology industries which tend to generate jobs at a rapid rate;

Facilitate the development of well-planned, controlled business environments such as industrial parks and employment centers in low-income areas (exclusive of enterprise zones) which effectively reduce the costs and the risk of doing business in those areas; and

Provide incentives, policies and programs for minority as well as nonminority businesses to locate in or near minority communities (exclusive of enterprise zones).

The reasons for promoting the above policies and programs are compelling. It is quite tempting in this recessionary environment to blame the dismally high minority unemployment rates on cyclical factors which are expected to correct themselves when the entire economy recovers. The facts are overwhelming, however, that minority American unemployment, particularly black unemployment concentrated in our central cities, is not in fact cyclical but is emerging as a permanent dependent sector of our population which is increasingly desperate for sources of self-sufficiency. We need no innovation in this society to design the model source of self-sufficiency—that model is the small business.

Historical trends indicate that a strong economic recovery will only disproportionately help minorities. During the economic growth period from 1975 to 1979, when the official nonminority unemployment rate decreased from 7.8 percent to 5.1 percent, or by 34.6 percent, the official black unemployment rate dropped from 13.9 percent to 11.3 percent or by only 18.7 percent.

More significantly, however, the unofficial black unemployment rate has not been under 20 percent in the past five years (this rate includes those who want a job but no longer are actively seeking one as well as part-time workers who want full-time work). This rate exceeded 25 percent during 1981 (see exhibit 1).

Historical trends further suggest that the problem of minority unemployment is likely to be even move severe in the future than it has been in the past. Not only has the government sector been contracting and laying off workers in recent

months, but trends in the location decisions of large manufacturers as well as small businesses suggest that the jobs are going in one direction and minorities are going in another:

Large U.S. manufacturers which used to locate primarily in major metropolitan areas are increasingly relocating in remote areas[1] (more than 200 miles away from major metropolitan areas). Contrary to popular belief, small businesses are the primary source of jobs for minorities [2] and are the dominant creator of jobs in central cities. However, most small business start-ups (start-ups are the source of a high percentage of new jobs) are now in the suburbs as opposed to the central cities.[3]

In contrast to nationwide patterns, preliminary 1980 census data indicate that black Americans are continuing to concentrate in the central cities of metropolitan areas. More than 14 million blacks out of a total of 26.5 million blacks now live in the central cities of major metropolitan areas, while six million others live in the suburbs and rural fringes of those areas.

The continuing decrease in the level of government social welfare programs, combined with the increase in minority unemployment is a societal dilemma which cannot be long ignored. As programs providing relief to the dependent are decreased, and the size of the dependent population increases, the need for simultaneous programs of development targeted to that population is clear.

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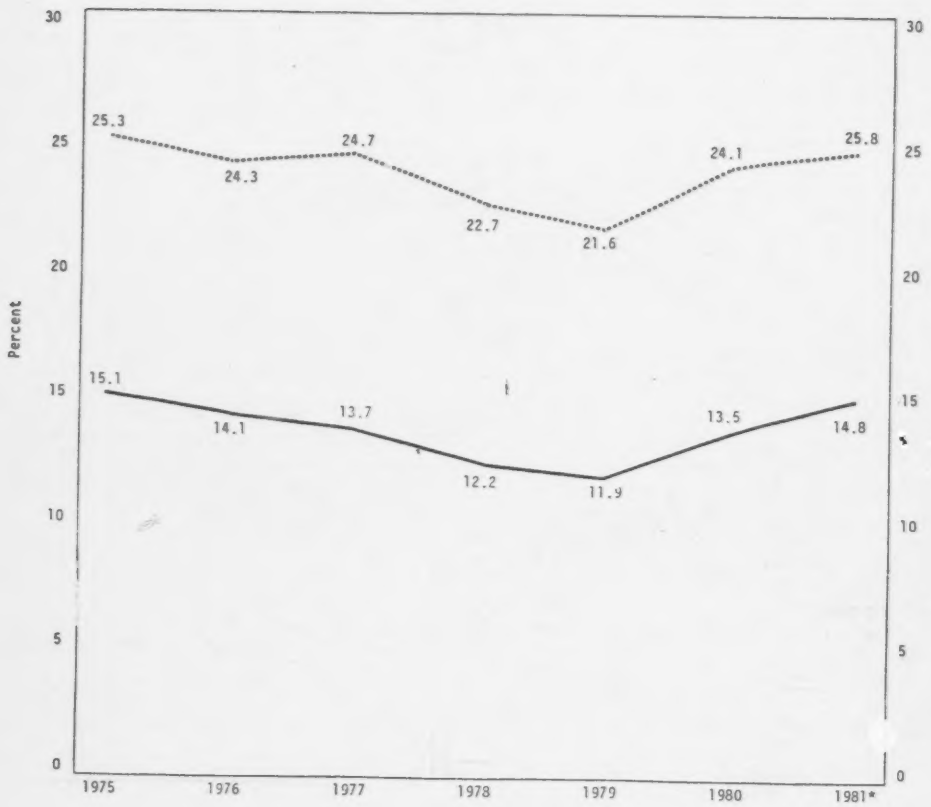
[1] David L. Birch, "Job Creation in the Cities" (Cambridge, Mass. MIT program on neighborhood and regional change, September 1980).

[2] George Gilder, "Wealth and Poverty" (New York: Basic Books, Inc., 1981), p. 83.

[3] David L. Birch, "Choosing a Place to Grow: Business Location Decisions in the 1970's" (Cambridge, Mass: MIT program on neighborhood and regional change, January 1981), p. 25.

EXHIBIT 1

UNOFFICIAL BLACK UNEMPLOYMENT RATE
VERSUS
UNOFFICIAL TOTAL UNEMPLOYMENT RATE



•••••••••• Unofficial black unemployment rate (1980 and 1981 figures include all nonwhites).

——— Unofficial total unemployment rate.

*First quarter.

Source: Compiled by Mark Battle Associates, Inc., from statistics provided by the National Urban League.

There is still an unfortunate lack of adequate data describing the current and historical condition of minority businesses. However, available data indicates that minority-owned firms provide jobs for less than one percent of the labor force, yet minority Americans account for more than 20 percent of the population. These percentages represent an important opportunity for minority business development policy, for the underutilized capacity in the minority business community represents a tremendous frontier of development, an underutilized source of job creation, innovation, entrepreneurial creativity and competition in an economy facing massive needs for economic stimulation in the central cities.

Specific policies and programs which deserve immediate attention by Congress and the administration include the following:

Tax incentives should to be implemented that encourage investments in small businesses in general and minority businesses in particular. Incentives are needed to begin to fill the gaps in the capital resources available to growing small firms.

Federal Government policy should encourage the continued expansion of participation of all minority-owned firms in Federal procurements by all Federal departments and agencies.

Federal Government policy should specifically promote the use of non-8(a) minority-owned firms as legitimate Government contractors.

Government policies for stimulation of the economy should include carefully targeted and complementary programs specifically designed to stimulate the increasingly economically depressed minority communities. Specific objectives for achievement include:

Incentives (by way of contingent government grants or tax benefits) for long-term cooperation by city government leaders, large established businesses, trade associations, small businesses, minority businesses and community-based organizations;

Incentives for minority businesses to locate in minority neighborhoods, exclusive of urban enterprise zones; and

Educational activities and materials describing the benefits to each of the parties with whom partnerships are required for effective urban revitalization programs.

The Federal Government should allocate a greater percentage of its research and development funds to small businesses in general and minority businesses in particular to stimulate more successful high-technology small businesses which tend to result in fast-growth firms generating new permanent jobs at a high rate.

The technology commercialization program of the Minority Business Development Agency should be expanded to become a major focal point for minority business development.

The importance of and the potential benefits to the national interest of a strong and healthy minority business community should be carefully articulated and widely disseminated to Federal Government officials and to the media.

The mergers and acquisitions program of the Minority Business Development Agency should be monitored as a potential focal point for minority business development.

Minority business development policies should be developed and implemented in coordination with overall small business development policies, as well as with the overall government policies for the revival of the U.S. economy.

An effective minority business development program is a critical component of any policy designed to stimulate economic activity in minority communities and can be an important component in a long-range plan to reduce the long-term demand for government social welfare expenditures.

A review of the 8(a) program of the Small Business Administration is instructive as it relates to how the Federal Government approaches developmental needs of minorities. I focus on the 8(a) program for a purpose. It is clearly a controversial program that has been the subject of a great deal of uncomplimentary publicity. My research on the program revealed:

The difficulties have been widely disseminated but the notable accomplishments of the 8(a) program are not well known, are not understood and are not appreciated because the 8(a) story has not been conveyed to the public in a balanced way. Numerous studies have been conducted that highlight the positive and negative aspects of the program. The following positive factors are not widely known. The 8(a) program has been effective in:

Providing otherwise inaccessible management experience to thousands of minority-owned firms;

Providing thousands of minority firms with access to an otherwise largely inaccessible Government procurement marketplace;

Providing track records for 8(a) firms;

Helping many firms qualify for non-8(a) government and commercial work;

Illustrating to many skeptical government officials that minority firms can perform effectively;

Providing a variety of types of satisfactory technical and financial assistance to participating firms;

Helping thousands of firms increase sales and income;

Helping many firms resolve bonding problems;

Helping many firms improve credit capabilities; and

Expanding the employment and skills mix of 8(a) firms.

Based on the types of developmental needs which exist in minority communities, particularly the absence of sizable programs that help minority entrepreneurs to gain valuable management experience, it becomes clear that the 8(a) program is the most effective Federal mechanism developed to date to increase the market share and viable participation of minority Americans in the U.S. economic mainstream.

Other important findings of the research are as follows:

Noted authorities indicate that SBA's size standards for all small businesses are unrealistically low. SBA size standards should be revised and indexed up or down to reflect a reasonable combination of the standards of the—

Heller Small Business Institute of the Wharton School, University of Pennsylvania (up to $50 million in sales); [4]

The National Association of Securities Dealers (up to $50 million in market capitalization);[5] and

The 1977 SBA task force on venture and equity capital for small business (up to $60 million in sales and 15 to 20 years for "maturity").[6]

Termination from the program should not be based on a change in the "economic or social disadvantage" of the owner. This discourages the 8(a) entrepreneur from making profits, increasing personal net worth and a variety of other impractical expectations. The economic and social disadvantage should be the basis for initial eligibility only, not retention. Once in the program, the objective should be to allow the firm to become viable so that it can make the same types of contributions to the economy made by nonminority small businesses.

The abrupt termination of the top fifty 8(a) firms before a realistic assessment of size standards or "competitive viability" defeats the objectives of the program and may permanently injure some of the minority business community's fastest growing companies.

The criteria for achieving "viability" in the 8(a) program should be defined by SBA in a manner which reflects the meaning of the term in the "subjective" private sector financial markets. If a firm cannot obtain the type of financing it needs at the stage of development it is in, it is not viable. The criteria should not be complicated. The following criteria are recommended:

Profitability: A firm that cannot demonstrate an ability to make a profit cannot attract capital. Profitability has not been a major factor in 8(a) criteria. It is recommended that firms should not be allowed to ascend to tier two until they have recorded a profit for two consecutive years, as reflected in certified financial statements;

Sales: In order to become "competitive," 8(a) firms must demonstrate an ability to acquire non-8(a) sales. It is recommended that firms should not be allowed to ascend to tier two until they have recorded a negotiated non-8(a) sales level of 5 to 25 percent of total sales (at the discretion of SBA) as reflected in certified financial statements;

Firms also should be ineligible for tier two until company sales have exceeded 50 percent of the "revised and realistic" size standards for two consecutive years; and

Access to capital: The final stage of development in the maturity of a firm to the state of viability is the successful attraction of equity capital only providers of equity can fairly assess the potential of firms to acquire equity. It is recommended that all 8(a) firms in tier two be evaluated by any SBA-funded MESBIC or SBIC each year and informed of deficiencies which must be corrected and norms which must be achieved before equity capital would be a realistic possibility. Once a firm completes a public equity offering, it must be graduated from the program within six months.

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[4] Dr. Hans Stoll and Dr. James Walter, "Tax Incentives for Small Business," Heller Small Business Institute policy papers, the Wharton School, University of Pennsylvania, 1980, p. 8.

[5] National Association of Securities Dealers, Inc., "Report of the Joint Industry/Government Committee on Small Business Financing—The Current Environment and Suggestions for Improvement, May 22, 1979.

[6] U.S. Small Business Administration, "Report of the SBA Task Force on Venture and Equity Capital for Small Business" (Washington, D.C.: Government Printing Office, January 1977), p. 1.

SBA should compile and widely disseminate to all government procurement offices, to the appropriate media and to all 8(a) firm participants, a document which clearly explains the program, its cost-effectiveness, its accomplishments and its present and future benefits to society.

Federal Government policies seriously need to reflect an appreciation for the importance of interlocking linkages between recovery of the U.S. economy, revitalization of economically depressed areas of our central cities, high minority unemployment rates and minority business development programs. Each minority business is a unit of capacity for minority self-sufficiency. Expanding minority businesses, therefore, expands the minority capacity for self-sufficiency. Failure of the Government to exploit this frontier of underutilized capacity through cost-effective minority business development programs perpetuates the disproportionate dependence of minority Americans on the larger economy for jobs and income supports.

Mr. MITCHELL. We will hear from you, Mr. Brownlee.

I didn't intend to do this but I wanted to make two comments.

One, you commented on the agency's unwillingness in some instances to really help minority businesses. I am more and more disturbed about the cogent force concept. Within these agencies there are people who just don't want it to work and they are doing everything that they can to sabotage it.

Civil service regulations or no civil service regulations, those people ought to go. Those have been the leaks about the bad cases in SBA. They come from within the Agency. Unfortunately, in 34 cases it is the agency personnel who have made the bad case.

The second comment that I want to make is with reference to termination that you discussed also. You are dead on target. It was really an almost ludicrous situation, forced graduation and by so doing you give a mindset guy, well, look, I don't want to grow any bigger. I don't want to become anymore successful because I will lose my status.

I just had to comment on those two.

Mr. HALL. If I may respond just briefly, the first comment regarding the role of civil servants who sabotage, I think, again, if the program received better press in terms of letting both the private sector, the media, but particularly the agency personnel who implement it, letting them get access to some of the beneficial aspects of the program, how, in fact, the program's effectiveness is in the public interest and if we get that from the leadership, both politically and within the agencies, I think that can make a difference.

Also, on your second point with regard to the terminations, there are three different areas in which there is essentially a conflict in the rules, regulations, and goals of the 8(a) program.

A firm could easily exceed the artifically low-size standards of SBA before achieving viability and be terminated from the program as a result. Yet, competitive viability is presumably the strongest goal of the 8(a) program.

Also, an individual owner could achieve a status that is considered no longer economically disadvantaged but his firm is not yet competitively viable. He could still be removed from the program. Further, he could no longer now be socially disadvantaged, and essentially be removed from the program, although his business is not yet viable. In any of these cases, essentially the main objective of the program is thwarted because some of the detailed rules and regulations have come up for action.

Mr. MITCHELL. Thank you.

Unfortunately, for those who are minorities I think we are going to be socially disadvantaged for a long, long time.

The SBA just ignored that part of it when it forced the graduations.

Mr. Brownlee, it is very, very good to see you again.

TESTIMONY OF DENNIS J. BROWNLEE, PRESIDENT, ADVANCE, INC.

Mr. BROWNLEE. Thank you.

It is good to be here, sir. I am very honored and privileged to be able to testify before this committee today on the need to establish a management information system for the SBA for the 8(a) program.

I think it is a tremendously important issue and one that should be addressed as soon as possible by the SBA in order to improve on efficiency and effectiveness of that program.

I agree with Mr. Hall that a lot of good has been accomplished by the program but I think that the results can be improved even more if, in fact, the management program has the information needed and required to run that program as it should be.

From this point I would like to read from my statement.

Mr. MITCHELL. Sure.

Mr. BROWNLEE. My company, Advance, Inc., last year conducted an extensive analysis of the information system needs of the 8(a) program.

My comments today have been drawn in large part from the report which we submitted to the SBA last October entitled "Fulfilling the Promise of the SBA 8(a) Program."

The title responds to the 1980 General Accounting Office report, "The SBA 8(a) Program—A Promise Unfulfilled," which identified a number of significant program deficiencies.

These included the lack of graduation of firms from the program, a disproportionate volume of 8(a) contracts going to only a few firms and the lack of true business development being conducted by the program.

After carefully analyzing the operating structure of the program and identifying the information components critical to its success, it was clear that many of these problems were the direct consequence of the absence of a system to collect and process data and generate management reports. As a result, management control and decisionmaking in the program were severely impaired, and they still are.

Today, I will briefly outline some of the important operational areas of the 8(a) program and describe handicaps under which managers in each of these areas have operated without a suitable management information system. I will describe the data collection and analysis system that is needed, and the benefits it can provide. Finally, I will outline what is needed to implement a management information system. For greater detail on these issues, I refer you to our complete report, copies of which will be available upon request.

The operations of the 8(a) program can be divided into four basic functional areas: Eligibility determination, business development management, requirements processing, and financial analysis.

Eligibility determination is essentially the process involving acceptance for filing of a company's application to the 8(a) program and determining whether or not the company should be accepted into the program.

An application is submitted to the district office, where it is reviewed for completeness, and an initial evaluation is conducted of the company's suitability for the 8(a) program.

Once the application is accepted by the district office, a 1017 form is sent to the central office describing the products and services offered by the applicant and the 8(a) contract support that is requested during the period of its anticipated participation in the 8(a) program.

In the central office the 1017 and the requested 8(a) support is analyzed by the Office of Program Acquisition to determine the availability of 8(a) contract requirements, or opportunities, in relation to the following: Total Federal procurement, industry area, the number of 8(a) firms offering similar products and services and the level to which those firms are presently being supported by the program. The results of this "requirements availability determination" are returned to the district office, and the district, regional and central offices conduct further evaluations on the eligibility of the applicant. This process may take several weeks to several months before a final decision is reached on whether or not the company will be accepted into the program.

The area of business development represents the heart of the 8(a) program. The functions involved here include: Assisting each company in developing a business plan that balances growth in both 8(a) and non-8(a) business; identification of procuring agencies where the 8(a) firm might be able to obtain contracts, and assisting each firm to obtain the 8(a) contract support it needs in accordance with its business plan; tracking the performance of each firm in relation to its business plan and the aggregate performance of the portfolio; matching open requirements that have been given to the 8(a) program with firms that need additional contract support; and finally, forecasting the volume of contract support that is needed during a fiscal year, and assisting procurement personnel in the agencies to identify appropriate requirements for the 8(a) program.

The major responsibility for business development is held by the district office in a decentralized structure, with business development specialists in each office working closely with small groups of 8(a) firms. The central office responsibility largely involves monitoring the business development process to insure that each firm receives the 8(a) contract support projected in its business plan without exceeding the limits agreed to by the SBA and the 8(a) company. The central office also has primary responsibility for forecasting aggregate 8(a) support each fiscal year and negotiating 8(a) goals with the procuring agencies.

The central office receives all open requirements from the agencies, that is all requirements that have been offered to the 8(a) program by procuring agencies without the designation or selection of a firm.

The central office, specifically the Office of Program Acquisition, recommends firms to compete on a technical basis for these 8(a) open requirements, ideally recommending firms that are below their project levels of 8(a) support. These functions are components of the process called requirements processing.

Another component of requirements processing involves approving 8(a) requirements offered to the SBA for which the selection of firms has already taken place by the procuring agencies. Documentation is sent to the SBA which describes the requirement and identifies the 8(a) company the agency intends to contract. The central office reviews the suitability of the requirement and approves the selection of the firm if the requirement is within the scope of the firm's business plan. The requirement offering is then sent to the regional and district offices for final review and approval, after which the 8(a) firm negotiates the contract with the agency, with assistance from the SBA if it is requested by the firm.

The financial analysis function involves tracking of loans, advance payments on contracts, business development expense that is granted, and logging of contracts once they are signed.

The business development specialist constantly reviews these items to insure that the 8(a) firm is fully supported financially to perform on the contracts it has obtained.

I went through that description of the process involved with the 8(a) program to give a backdrop to some of the problems which exist in dealing with the functions it is designated to carry out.

Thus far, the major development of a management information system for the 8(a) program has been in the last area, financial analysis. In fiscal year 1981 a financial information system was developed and implemented. Each district office now has a video display terminal which is linked to the SBA Univac 1100 computer that can be used to input financial data to a data base and to retrieve information from it. In addition, Advance, Inc., set up a computerized system to process requirements for the Office of Program Acquisition last year. It is scheduled to be phased into operation before the end of this fiscal year. Advance also recommended computer based systems for forecasting and requirements availability determination, and assisted the Office of Program Planning and Control to design computer reports needed for business development management and eligibility determination.

While these are decidedly steps in the right direction, a concentrated effort is needed to develop an integrated system for data collection, processing, and information analysis in each of the functional areas I have described. The lack of the right information in the right place at the right time has created the following problems that have characterized and plagued the 8(a) program in recent years:

No effective mechanism exists for tracking 8(a) applications through the eligibility process. This has resulted in a lack of monitoring, and lack of control of 8(a) applications, both of which are necessary to insure timely processing. Requirements availability determinations for applicant firms are vague and not founded on quantitative analysis, resulting in an imbalance of the types of firms represented in the 8(a) portfolio. This leaves out some firms which should, by implied definition, qualify.

Ineffective targeting of procuring agencies and buying activities from which suitable procurements can be obtained, coupled with a lack of data on the capabilities and support needs of 8(a) companies has severely hampered the program's efforts to obtain the type and volume of requirements needed to support the entire portfolio. The inability of the central office to accurately monitor and evaluate the performance of 8(a) companies in relation to their business plans has led to some firms receiving a disproportionate share of 8(a) contracts while others have received virtually none. A disproportionate allocation of time devoted to routine and repetitive paper work has diminished management effectiveness and hampered the business development process.

In summary, the lack of a management information system has contributed dramatically to a lack of management control, ineffective decisionmaking and inefficient operations. In the absence of having basic management tools, the 8(a) program has done well to produce the results it has in recent years with its limited staff and increasing responsibilities.

Although a management information system has been discussed and planned for several years it has been sidetracked repeatedly. During this time there has been an increased emphasis on increasing the size of the 8(a) portfolio and the volume of 8(a) contracting without an associated emphasis on building the infrastructure for the monitoring, control, and management that is needed to run the program efficiently. Thus, it has not achieved its true potential.

The development of a management information system for the 8(a) program should not be sidetracked any longer. If it is, then it will be extremely difficult for the SBA to successfully and fairly implement its new procedures for fixed term participation in the 8(a) program. The management information system should include the following elements:

One, a mechanism for each 8(a) application to be logged into a computer master file and tracked through the eligibility process. As actions are taken they would be entered into the system to update the master file, so that at any time the district, regional or central office can make an inquiry through a computer terminal and determine the exact status of each 8(a) application.

The system should also be able to indicate the total number of applications in the process and the product and service areas in which firms are applying to the program; second, a mechanism to analyze the business development plan and performance of each 8(a) firm, allowing any appropriate SBA office to quickly determine how each firm is progressing toward the achievement of its business plan and how much additional support is needed.

The system should also have the capability to aggregate and analyze projections and balances of all companies by product and service codes, and by district and region and for the entire portfolio; third, a mechanism to quickly and efficiently log and process all requirements that are offered to the 8(a) program, capturing pertinent requirements data and building a data base that would be used for generating management reports; fourth, a mechanism to accurately project the support needed by the 8(a) portfolio in specific product and service areas for the purpose of annual forecasting and goal negotiation with the procuring agencies.

This system should provide the capability for targeting agencies and buying activities best suited to offer support in each area; and, last, a mechanism to quantitatively analyze the potential availability of contract support for the 8(a) applicants in each industry. This will give the Office of Program Acquisition a solid basis for determining whether or not there is potentially sufficient 8(a) support for firms applying to the program.

A system which has these components will provide 8(a) program management with the fundamental tools that are needed to run the program efficiently. It will help to produce the following benefits, which will result in a vast improvement in the performance of the 8(a) program:

More efficient and timely processing of 8(a) applications; a better distribution of contracts among all 8(a) firms; a better balanced composition of firms in the 8(a) portfolio; more timely processing of 8(a) requirements; better assessment of potential support for prospective 8(a) firms; a greatly enhanced level of business development assistance; better utilization of program personnel, obviating the need to expand the professional staff, while giving those in place the capability for better decisionmaking and control of the 8(a) process, and enhanced capabilities of minority enterprises to enter mainstream industries, leading to greater business development and job creation in depressed areas of the economy.

These are all key objectives of Dr. Robert L. Wright and other 8(a) program officials, and they recognize that it will be extremely difficult to achieve these objectives without adequate tools to manage and control program operations. Implementing a management information system is of critical concern to them. Several key components of an integrated management information system have already been planned an designed, and development of the system can begin as soon as the funds are appropriated for it. Funding should be sufficient to cover the costs of additional system analysis and design, all software development and testing, and comprehensive training for all personnel who will be using the system. In addition, a management level position should be created within the 8(a) program for an information systems specialist, who would direct the development of the system and phase in enhancements as they are needed.

In conclusion, the implementation of a computer-based management information system must be a top priority for this administration if it intends to make the promise of the 8(a) program a reality. It would dramatically improve the efficiency, effectiveness, and value of the program, significantly augmenting the success of the administration's efforts to stimulate minority business and economic development.

Thank you.

Mr. MITCHELL. Thank you very much.

I am one of the few Members of Congress who doesn't have that little beeper that goes off to let you know that a vote is on. When I go to these receptions around here—which is not too often—I refuse to put on the label identifying me.

I am saying in effect I personally don't like gages and things like that, but it is abundantly clear that this kind of system is desperately needed in the Small Business Administration. I don't see how

in the world anybody could run a ship without having that system in place.

The Administrator for the Small Business Administration this morning told us that he has a task force to analyze SBA's data needs, and he has your report, doesn't he?

Mr. BROWNLEE. The Small Business Administration does have my report, sir. Whether or not the Administrator has it, he can answer that question.

Mr. MITCHELL. Did you know anything about a task force being organized to analyze SBA's data needs?

Mr. BROWNLEE. I haven't heard of that specific task force, although I know that in several years several task forces have been organized to do the very same thing.

Mr. MITCHELL. Have you been asked to serve on any of those task forces?

Mr. BROWNLEE. I am afraid I haven't, sir.

Last year we conducted a thorough analysis of the data processing needs of the 8(a) program, submitted our report which offered specific recommendations in three areas which were requirements, processing, forecasting, and requirements availability termination, and we assisted other program people in the SBA to develop and design reports and design a system for the complete information management system.

As I say, that effort was sidetracked last September. As I understand it, the money had been appropriated for the system and had been submitted to the Administrator and was turned down at that time.

As I understand it, new efforts are currently underway.

Mr. MITCHELL. Let's backtrack a little bit. The money had been appropriated for the system?

Mr. BROWNLEE. Yes; last year.

Mr. MITCHELL. And it was given over to the Administrator?

Mr. BROWNLEE. Last year it was.

Mr. MITCHELL. And what happened?

Mr. BROWNLEE. The recommendation for a management information system was submitted to the Administrator last year and as far as I know it was turned down. Nothing ever happened with that.

Mr. MITCHELL. That is simply incredible.

Mr. BROWNLEE. It is to me, sir. I don't see how the Government can act as a consultant to minority businesses on how to run an operation efficiently and effectively without having the proper tools to do so itself.

Mr. MITCHELL. I think we would like to pursue that very vigorously with the Administrator. Frankly, I think it would solve a lot of problems if we just had a good system in place.

Mr. BROWNLEE. I do, too. A lot of what is wrong with the program, or I should say the problems that they have experienced, have resulted directly from the lack of such a system.

Mr. MITCHELL. A bottom line question to both of you gentlemen. At this stage, at this date in time with the general situation being what it is for both MBA and SBA, would you recommend that the 8(a) program be absorbed into the Department of Commerce in MBDA?

Mr. HALL. Well, as I have already indicated, one of the artificial barriers to the development of minority businesses is bureaucratic delays.

In addition to that, I think another overriding factor here is the fact that both SBA and MBDA are embarking on major revisions to their existing programs. I believe any action, whether it is 8(a) going over to MBDA, or MBDA going over to SBA, any action of substantial change right now that provided an excuse or the actual requirement for additional delay would seriously harm minority business development efforts, procurement access, and all the other forms of assistance that are now not as available to minority businesses as the legislation intended them to be.

Mr. MITCHELL. Your answer is no?

Mr. HALL. My answer is no.

Mr. MITCHELL. Mr. Brownlee?

Mr. BROWNLEE. Mr. Chairman, I would say that there is a lot that can be done to improve the efficiency and effectiveness of the 8(a) program as it is right now with the SBA, and I think that moving the program to MBDA would tend to forestall the institution of some of those improvements. So I would say no.

Mr. MITCHELL. Your answer is no as of this time?

Mr. BROWNLEE. Right.

Mr. MITCHELL. Gentlemen, thank you both very much. Thank you.

Mr. Daub.

Mr. DAUB. No; except as I indicated before I left that I share that point of view: The physical effort alone would cause further difficulty, and we have a potential right now, I think, of some real good improvement in the 8(a) program and its administration.

I would say that I have sat on the Government Operations Committee where Jack Brooks wants to look at any new computer that is bought by Government so that part of the effort to install a better management system needs to be shared with your colleague and mine, Mr. Brooks.

Mr. MITCHELL. Gentlemen, thank you very, very much.

We will now turn to our third panel which consists of Mr. L. H. Smith of Smith Oil Co., and Mr. Roy Littlejohn, president, Black Presidents' Roundtable Association, and Hollis Stabler and Alan Parker of the National Congress of American Indians.

I am going to ask that Mr. Stabler go first primarily because my colleague has time contraints and I would turn to my colleague to welcome him to this hearing.

Mr. DAUB. I thank you, Mr. Chairman. I am privileged, Mr. Chairman, to introduce, and I am very proud to have that opportunity to introduce to the committee a fellow Nebraskan, Mr. Hollis Stabler. Mr. Stabler is an individual of extensive practical business experience whose insight would be of interest to this committee. Mr. Stabler is currently in the second year of a 3-year term as a member of the Omaha Tribe of Nebraska and in that position he is in charge of economic and enterprise development. Previously, Mr. Stabler has been involved in a great number of educational and commercial activities as well as operating his own businesses.

I believe that this broad history of service and practical business effort will make Mr. Stabler a significant asset to the work of this

committee. It would take us too long to read eight pages of his credentials. I can't do that.

I simply indicate to you, Hollis, welcome. We are glad you are here and we are anxious to learn.

Mr. MITCHELL. Just before we hear from you, Mr. Stabler, I would like to indicate that your Representative is of another party. We are not always on the same ideological and political track but he has certainly been an outstanding member of this committee in terms of his pursuit of the objective that all of us share and that is to get minorities involved in entrepreneurial activities in this Nation and bring us into the mainstream.

We cross swords occasionally on some minor points but his commitment to minority businesses, I think, is just unflagging. He serves you well.

We will hear your statement.

PANEL CONSISTING OF HOLLIS STABLER; L. A. STALLINGS; L. H. SMITH, JR.; AND ROY LITTLEJOHN

TESTIMONY OF HOLLIS STABLER, ON BEHALF OF THE NATIONAL CONGRESS OF AMERICAN INDIANS

Mr. STABLER. Thank you, Mr. Chairman, and thank you, Mr. Daub, for the introduction.

I want to also thank Mr. Daub for intervening on behalf of the Indians in Nebraska in sending a representative of the Small Business Administration up this past Monday to conduct a workshop of the Omaha Tribe which was well attended and enthusiastically supported by the Tribal Council of Omaha Tribe of Nebraska. Mr. Chairman, on behalf of the National Congress of American Indians' Committee on Economic Development, I wish to express my appreciation for this opportunity to present testimony on the development of an entrepreneur class in Indian country.

I am accompanied today by Mr. Steve Stallings, to my left, president of United Indian Development Association in Los Angeles, Calif.

Our testimony is intended to be brief, allowing time for questions. I will point out a few of the unique aspects of the environment in which this growth must take place. Mr. Stallings will address more specific efforts directed at Indian-owned businesses, and business development programs.

Economic conditions on the reservation certainly are as poor, if not the poorest, in the United States. On the Omaha Reservation, 62 percent unemployment, low per capita income, population that is increasing at an increasing rate. Compared to an average family size of 2.8, our average family size is 4.5, and this, gentlemen, is a geometric rate.

Now, combine that with our land base which has not increased in the last 100 years and some other things, we can summarize this best by taking a look at the vicious circle of poverty. We are all very much familiar with that, and it is purely low productivity, low per capita income, low savings ratio, low accumulation level, low investment ratio, and back again to low productivity. Our economy, gentlemen, is a transfer payments econony. Transfer payments either through Federal programs down to Indian tribes with 638

contracts or the Indian Health Service or BIA, or transfer payments to ADC, welfare, et cetera, and this is a shame.

This is an absolute crime to have the first citizens, the first Americans, be in a position of deprivation and having to literally go out and ask for the next day's meal. I don't want to get emotional about that but it is absolutely tragic. I think what we need, though, to keep this brief, is let's quit defining poverty and let's talk about developmental economics and see what can be done with this, and what is unique about Indians.

After all, isn't business business? When I went to the University of Nebraska I made a decision at that point in time that business was neither red nor was it white, it was purely green, but as I got my degree I realized that you have to tint those shades a little bit and have a good understanding of what you are going about if you are going to develop a viable class of business entrepreneurs.

That uniqueness can best be outlined by taking a close look at the factors of production, by that I mean land, labor, capital, and entrepreneurability.

Where are Indian tribes utilizing those factors of production? I can only draw for you a scenario of what is a very good economy in view of developmental economics. There was a transition where the Indians were on the plains stealing horses and women and having a good time. Our traditional economic system worked quite well to where we came to our reservation stage. We are now to the private stage, to the growth stage. Where is the United States at this transition in the development of a better standard of living?

The United States has reached its maturity and is now dealing with shortages. Shortages in the areas of land, fuel and water. What has been the traditional response of the American economy and other great civilizations and nations and countries throughout the world when they deal with shortages?

What did the Roman Empire do? What has the United States done? They have gone after more land and in this United States it happens that the Indians own the last part of the land that can be developed. It is either the Indians or the Federal Government on the land issue.

The water rights certainly have been abridged within the past year, almost totally disregarding some of the laws that have been in effect for years and years. They were put in effect to support our future economic development and involvement.

Well, all of this I say because it is relevant to where you get a people to support a business sector, a private sector that is entirely the essence upon which the future development of Indian tribes has to be placed and this subject is so broad and lengthy that I don't want to take any more time at this point.

However, Mr. Chairman, this is not a reason to forgo a proper consideration of this unique aspect of small business development in this country and I recommend that there be followup hearings held on Indian small business development in the near future. With that I will reserve my questions until after Mr. Stallings has had a chance to briefly address this committee.

[Mr. Stabler's prepared statement follows:]

PREPARED STATEMENT OF HOLLIS STABLER, ON BEHALF OF THE NATIONAL CONGRESS OF AMERICAN INDIANS

Mr. Chairman, Members of the Committee on Small Business, on behalf of the National Congress of American Indians' (NCAI) Committee on Economic Development I wish to express my appreciation for the opportunity to present testimony on the economic conditions confronting American Indian Tribes and their members. My name is Hollis Stabler and I serve not only as a member of the NCAI Committee on Economic Development but also as Treasurer on NCAI's Board of Directors. The NCAI is the largest Indian organization in the country representing more than 180 Indian tribes as well as numerous individuals and organizations. I am a member of the Omaha Tribe of Nebraska and serve on the elected governing body of the Tribe, the Tribal Council. I also own and operate several small businesses in my home state having received a degree in Business Administration and Developmental Economics from the University of Nebraska. I am accompanied today by Mr. Steve Stallings, the President of the United Indian Development Association in Los Angeles, California. My testimony will focus on the broader questions of the unique economic environment existing in Indian country in which Tribal business enterprises and the individual Indian entrepreneurs must function, while Mr. Stallings will address the more specific efforts directed at Indian owned business development.

At the outset, I would like to point out that an SBA sponsored workshop was just conducted on my reservation by the Omaha district office of the SBA. That workshop was well attended and provided, I'm sure, myself and relevant information to the members of my Tribe. What this tells us, Mr. Chairman, is that the federal government has and continues to make an effort to assist in Indian business development and that there is a great deal of motivation and level of interest on the part of the Indian people in this country. In fact, I would say that the level of motivation on the part of both tribal government representatives and individual tribal members has never been at a higher level. Unemployment on my reservation is now estimated at 62 percent and per capita household income at less than one half the national average. With the recent cutbacks on federal income maintenance and social service programs, the subsidized economy which has existed on the reservation is rapidly collapsing, revealing the near total absence of a productive private sector economy on Indian reservations across the country.

These conditions of extreme economic deprivation and the human hardships which have resulted are not recent phenomena for Indian people although the highs and lows which we are seeing today are new. My colleagues on the NCAI Economic Development Committee, in conjunction with the Council of Energy Resource Tribes and the National Tribal Chairmen's Association, presented a comprehensive analysis of these conditions, their causes and effects and recommended solutions before the U.S. Senate Committee on Indian Affairs in April of this year. These materials have been made available to your staff. I would like to briefly outline the major elements of our position because I think it will be helpful to see the big picture in order to effectively focus on the specific concerns now before this Committee.

The fundamental causes of this extreme economic under development which exists in Indian country have been identified by every major study and report on the subject. They are:

Indian people have been systematically deprived of control over their own lands and resources throughout history. Although the federal laws and practices which accomplished this are slowly changing, the level of effective Indian control necessary to build an economy around the Indian reservations natural resource base is still far from adequate.

Indian tribes and tribal matters lack any real access to the sources of development capital and commercial credit which are available through the private sector of our country's economy. Indian reservation communities do not have even a token number of financial and saving institutions and whatever capital that is generated internally immediately flows off the reservation. This situation will not change without a meaningful external effort which can only be accomplished with federal support. Consequently, several of my colleagues have designed and drafted legislation for federally chartered Indian development finance institutions which would operate on private market principles and efforts are now underway to enlist congressional sponsors for this vitally needed program.

There is a near total absence of experienced Indian business operators, managers and technicians to take advantage of whatever viable business opportunities that exist or may be developed in the near term. Not only has the Bureau of Indian Affairs education system been at fault, but the traditional or cultural values of Indian people are not readily adaptable to competitive participation in the capitalist eco-

nomic system of White America. Indian people can adapt and succeed at business, that is not the problem, but this adaptation and the development of a tradition of Indian entreprenership cannot take place in a vacuum of business opportunities.

These obstacles can be overcome with time and a commitment by the government to help Indian people help themselves. We have learned a great deal in recent years and a number of initiatives are now being coordinated by the NCAI Economic Development Committee in conjunction with the Administration and other congressional offices. A very important part of this coordinated effort focuses, quite rightly, on specific matters that are within the jurisdiction of this Committee. For example, we have advocated for the development of federal policies designed to provide Indians a comparative advantage in accessing the federal procurement system as well as modifying the technical assistance efforts of such agencies as the Small Business Administration and the Minority Business Development Agency. Our experience has proven that such efforts must be tailored and adjusted to the unique needs of Indian business development if they are going to have a meaningful impact. The recently announced program of MBDA assistance, for example, should take these realities into account and enable the design of technical assistance efforts that can reach out to the reservation. A mobil training facility, which is a proven model for such conditions, has been suggested as well as development of materials adapted to the real conditions in Indian country rather than the urban or industrial environment. My colleague, Mr. Stallings, is prepared to address the issue of SBA and MBDA efforts in more detail. However, before concluding, I would like to urge this Committee to give serious consideration to the possibility of follow-up hearings to identify the issues and prospects adequately. You are clearly in a position to be a great help to the Indian business community at an extremely crucial period.

Thank you and this concludes my statement.

Mr. MITCHELL. Mr. Stallings.

TESTIMONY OF STEVE L. A. STALLINGS, PRESIDENT, UNITED INDIAN DEVELOPMENT ASSOCIATION, LOS ANGELES, CALIF.

Mr. STALLINGS. Chairman Mitchell, it is a pleasure to be in front of the committee again having previously provided testimony on the 8(a) program in Los Angeles.

As Mr. Stabler has suggested, American Indians have suffered more and benefited less from the Nation's economic success than any other group of disadvantaged citizens.

And while assistance to Indians has increased in recent years, Indian economic conditions have not been significantly improved. This is in spite of the fact that there exists great potential for combining Indian talent with economic and business opportunity. This paradoxical situation exists because there is no systematic means of including Indians in the economic system which historically has sought to exclude them.

American Indians number an estimated 1,418,195, and Indians number less than 1 percent of the total population. Nevertheless, in the fields of health, education, employment, and especially economic development, their needs exceed those of other segments of the population, and to date those needs have been largely unrecognized and therefore unresolved.

For example, in California, minorities comprise about 11 percent of the population but own 21 percent of the small businesses in the State. Indians comprise 4 percent of the State's minority population but own only two-tenths of 1 percent of the minority-owned businesses.

The statistics can go on and on for Indians in other States. The conclusion is clear: Indians are not participating in the economy, and are suffering the ill effects of nonparticipation to an alarming degree.

The obvious question is: Do not Indians benefit from governmental efforts to assist other minorities is answered by a resounding "No."

The reason, while obvious to Indians, has escaped both policymakers and program implementators. Indians simply are not part of "America's minority society" any more than they are a part of the dominant society. Indians have a unique position from a cultural, historical, and legal frame of reference.

In ignoring Indian's unique status, Government has also ignored the steps it must take to assist this unique group of citizens. Government attempts to help minority enterprise has resulted in little or no help going to Indians.

Delivery of assistance has been concentrated in minority population centers in urban areas while Indians live on reservations and in rural areas and those who do live in the major urban centers, have not formed "ghettos." Federal assistance to Indians has been largely channeled into social and welfare programs. These programs, while desperately needed, do little to correct the cause of poverty. They generally result in making poverty less painful, but yet the poverty persists.

More recently, large sums of funds have gone to employment and training programs and yet unemployment continues at extremely high levels. Programs for Indian communities to develop long range economic goals have been funded by EDA and the plans gather dust. Housing is planned, funded, and built with no promise of income for the occupant.

Nearly every attempt to combat Indian poverty is made to improve Indian ability to consume a greater quantity of goods and services. To eliminate Indian poverty we need to increase Indian capability to produce goods and services.

This means a concentrated effort at increasing Indian ownership of economic enterprises. Increased productivity will result in employment and income for American Indians.

Mr. MITCHELL. We do have a vote that I think we have to make. Why don't we take a 20-minute recess and then we will come right back.

[A brief recess was taken.]

Mr. MITCHELL. Gentlemen, we might as well resume. Congressman Daub stopped me to offer his apologies. He has to go to his other committee. He has three questions that he specifically asked me to raise for him. If you will proceed with your testimony, please.

Mr. STALLINGS. A number of barriers exist that have their roots in the callous manner in which Government as an agent of society choose to enrich itself at the expense of the Native populations. The extreme geographical, social and economic isolation imposed upon Indian communities resulted in communities devoid of any private enterprise, and totally dependent upon private and public charity for existence. Whether an Indian lives on a reservation or in a city, very real barriers to economic growth exist. There is a low level of experience in business management within the community. Due to impoverished conditions there is little or no equity or venture capital available.

Tribes as a unit of government are denied the use of bonds as a means of securing developmental capital. The land holdings of the tribe and its individual members, their principal asset, cannot be used to leverage capital due to its unique unrestricted trust status.

While Indians are last by nearly every socioeconomic measurement, Indian communities for the most part are capable of significant progress.

It is in this respect that it is totally inappropriate to view an Indian community whether it be on or off the reservation in the same light as other minority groups. This is because Indian economic progress must be built around strategies and concepts not unlike those employed by lesser developed nations.

Indeed, the parallels are striking for in terms of health, education, economic infrastructure, employment levels, birth rates, land and natural resources. Indians and lesser developed nations are in very similar circumstances. The elements for Indian economic growth do exist. Internally Indian possess land, natural resources and surplus labor. They possess sovereignty over their land and people. The possession of land and sovereignty dictates that Indian development must follow an approach different from other minority groups.

There exists a whole array of external factors that, if properly organized, could lead to significant economic progress. All programs to assist minorities on the part of the Federal Government of definition, must include Indians. Because of the unique Federal/Indian relationship, there also exists programs and agencies designed to serve Indians as a separate classification.

There is, for example, the Indian business development program in the Bureau of Indian Affairs created by the Indian Financing Act. The "Buy Indian" Act and the enforcement of Public Law 93-638 compelling HHS-ANA to award competitive bid contracts to Indian-owned firms on a preferential basis.

The "Buy Indian" provisions of the act create an immediate multimillion dollar market for Indian enterprises. Additionally, past legislation regarding local public works has clearly spelled out that 2 percent of appropriations could be earmarked for Indian community public works.

Federal resources are not the only external factors available for Indian economic development. The States can and should become more aware of the responsibility they have in helping to create more favorable conditions for Indians.

In spite of the low level of Indian economic achievement, Indians possess the basic elements of human and natural resources necessary for economic progress. Indians across the Nation are ready for accelerated economic growth.

How can the forces for progress be organized and directed in such a manner as to overcome the barriers to Indian economic achievement?

Perhaps the answer lies in looking at examples of past achievement. The lessons learned are valuable in creating a vehicle for replicating successful experiences throughout the Nation. In my written testimony I have given examples but more importantly, I would like to mention a specific example in California.

In 1972, there were 20 Indian-owned businesses in California. Today there are over 600 companies. In the past year, gross sales for these firms has exceeded $110 million and over 1,700 new jobs were created by Indian business expansion. More importantly, the success ratio has been over a 95-percent survival rate.

The factors important to the success of these examples are easily identified. This basic program has been supported for over 10 years by MBDA:

(1) The desire to create the venture came from the Indian community or individual. The desire was not externally imposed.

There existed an economic/business opportunity to successfully compete in the marketplace.

We have numerous examples from recreational vehicle parks to industrial parks that are now white elephants on Indian reservations and not the idea of Indians.

(2) The successful opportunities actually existed in the marketplace.

(3) The enterprises were within the experience range of the Indians involved.

(4) The combination of Indian talent and resources with business opportunity in a solid business plan, coupled with competent support services attracted both public and private financing.

(5) Technical and management assistance tailored to the individual case was available from the planning stages through startup.

(6) Ongoing technical and management assistance was available to overcome the problems encountered in the operations. We feel it is not difficult to envision a nationwide system for delivering client-initiated business and economic development assistance.

Indians, however, cannot do the job alone. There must be an active partnership developed between Indians, Government, and private industry. Government can make a positive contribution to Indian economic progress by providing assistance on three tiers. We recommend that the first tier would be composed of a marshaling of Government contracting, financing, and technical assistance resources.

These resources possessed by a variety of agencies and departments need to be expressed in terms of a plan to reach a stated goal.

A U.S. Indian Development Board composed of representatives from key "resource" agencies along with Indian representatives and chaired by the Vice President would assist each agency to develop its goal planning and would monitor the progress made and the impact on Indians.

On the second tier, help must establish a nationwide delivery system of technical and management assistance. The delivery system must have a minimum of 12 regional field offices to serve all areas of Indian population in the Nation. The offices would provide ongoing assistance to tribes, groups, and individuals who want to pursue business ownership opportunities.

Finally, Federal participation must be secured in financing. Private sector support can be obtained in a multifaceted program from financing to bonding. The total capital needs of Indians start out at approximately $800 million, required to capitalize an Indian development bank throughout the United States.

This must be a direct flow of coordinated assistance to Indian communities and individuals to help them achieve their economic and social goals.

The complex "catch as catch can" system now operating is an efficient system that frustrates not only Indian people but also the objective of helping Indians.

The direct link between economic growth and income and job creating enterprises can no longer be ignored. Given the severe problems faced by Indians and the high cost of income transfer payments, the investment in this effort has more than ample justification. History and simple justice demand at least this much.

I wish I could explain the problems that we have with the 8(a) program and the problems with repaying those loans, however, we can't complain about those things because we are not getting them. There is not enough being done or enough programs existing for Indians.

Our previous input on SBA programs in 8(a) regulations problem illustrates this situation. SBA has a bad track record with Indians. There is no specific effort, no specific 7(j) program or other programs directed at Indians in that agency.

There are no Indian SBIC's, and I could go on and on about the lack of assistance to Indians.

Thank you.

[Mr. Stalling's prepared statement follows:]

PREPARED STATEMENT OF STEVE L. A. STALLINGS, PRESIDENT, UNITED INDIAN DEVELOPMENT ASSOCIATION

American Indians have suffered more and benefitted less from the Nation's economic success than any other group of disadvantaged citizens. And while assistance to Indians has increased in recent years, Indian economic conditions have not been significantly improved. This is in spite of the fact that there exists great potential for combining Indian talent with economic and business opportunity. This paradoxical situation exists because there is no systematic means of including Indians in the economic system which historically has sought to exclude them.

Since nationhood the United States of America has been a land of opportunity for the world. The vast majority of people have benefitted from the success of the nation's economy. Unfortunately, Indian people have not. Indeed, American Indians experienced a tragic decrease in land holdings, economic conditions and population.

American Indians number an estimated 1,418,195 and while, Indians number less than one percent of the total population. Nevertheless, in the fields of health, education, employment and especially economic development, their needs exceed those of other segments of the population, and to date those needs have been largely unrecognized and therefore unresolved.

For example, in California minorities comprise about 11 percent of the population but own 21 percent of the small businesses in the state. Indians comprise 4 percent of the state's minority population but own only two-tenths of one percent of the minority owned businesses. Indian unemployment runs nearly 50 percent, and average per capita income for Indians is a scant $770 per year. Nearly 40 percent of California's Indian population lives below the poverty level. The statistics can go on and on for Indians in other states; the conclusion is clear; Indians are not participating in the economy and are suffering the ill effects of non-participation to an alarming degree.

The poverty that Indians suffer today is not the result of an inevitable clash of cultures but rather the tragic conclusion of a determined policy to dispossess Indian people of their rights. Indian farms withered as their water rights were diverted to non-Indian farms. Indian land claims were ignored or extinguished without due process by speculators and local, state and federal governments. Indian men, women and children were hunted for sport. And while black slavery was discontinued in the U.S., Indian slavery persisted in many area.

The forces of society accomplished the goal of reducing Indians to economic and political insignificance with the expectation that Indian people would soon disappear in the face of a higher civilization. Fortunately for Indians and society this expectation has not been realized. Indians are a part of the Nation's society whose needs continue to beg an enlightened response.

The obvious question: Do not Indians benefit from governmental efforts to assist other minorities? Is answered by a resounding "no". The reason, while obvious to Indians has escaped both policy makers and program implementors. Indians simply are not a part of "America's minority society" any more than they are a part of the dominant society. Indians have a unique position from a cultural, historical and legal frame of reference.

In ignoring Indians' unique status, government has also ignored the steps it must take to assist this unique group of citizens. Government attempts to help minority enterprise has resulted in little or no help going to Indians. Delivery of assistance has been concentrated in minority population centers in urban areas, while Indians live on reservations and in rural areas and those who do live in the major urban centers, have not formed "ghettos".

Out of the numerous Indian enterprises submitted to the Bureau of Indian Affairs for the Indian Finance Act only a small handful were capitalized. This occurred in spite of the fact that each Indian enterprise submitted was carefully screened prior to submission. Government financing and technical assistance programs have not provided any systematic means of including Indians.

Federal assistance to Indians has been largely channeled into social and welfare programs. These programs while desperately needed do little to correct the cause of poverty. They generally result in making poverty less painful but yet the poverty persists. More recently large sums of funds have gone to employment and training programs and yet unemployment continues at extremely high levels. Programs for Indian communities to develop long range economic goals have been funded by EDA and the plans gather dust. Housing is planned, funded and built with no promise of income for the occupant.

Nearly every attempt to combat Indian poverty is made to improve Indian ability to consume a greater quantity of goods and services. To eliminate Indian poverty we need to increase Indian capability to produce goods and services! This means a concentrated effort at increasing Indian ownership of economic enterprises. Increased productivity will result in employment and income for American Indians.

The depth of poverty in Indian communities belies the tremendous potential for rapid progress. Business in our free economy serves the needs of society. Human needs present business opportunity to meet those needs. Therefore, when one speaks of lack of utilities, roads, water systems and community facilities as indicators of underdevelopment, one is also compiling an impressive list of business opportunities that must be seized if people's needs are going to be met in other than a welfare mode.

A number of barriers exist that have their roots in the callous manner in which Government as an agent of society choose to enrich itself at the expense of the native populations. The extreme geographical, social and economic isolation imposed upon Indian communities resulted in communities devoid of any private enterprise and totally dependent upon private and public charity for existence.

Whether an Indian lives on a reservation or in a city very real barriers to economic growth exist. There is a low level of experience in business management within the community. Due to impoverished conditions there is little or no equity or venture capital available. Tribes as a unit of government are denied the use of bonds as a means of securing developmental capital. The land holdings of the tribe and its individual members, their principal asset, cannot be used to leverage capital due to its unique restricted trust status.

When these barriers are combined with prejudicial attitudes which are deeply engrained in society, it is little wonder that Indian development lags not only behind that of society in general but other minority groups as well.

While Indians are last by nearly every socio-economic measurement, Indian communities for the most part are capable of significant progress. It is in this respect that it is totally inappropriate to view an Indian community whether it be on or off the reservation in the same light as other minority groups. This is because Indian economic progress must be built around strategies and concepts not unlike those employed by lesser developed nations. Indeed, the parallels are striking for in terms of health, education, economic infrastructure, employment levels, birth rates, land and natural resources. Indians and lesser developed nations are in very similar circumstances.

Indians are in effect nations within a nation, states within a state. This unique status is derived from Indian rights to self government that have never been extinguished. This status has been given a legislative base for federal policy formulation in Public Law 93-638, the Indian Self-Determination Act and has been reinforced by treaties, executive orders, and supreme court decisions.

The elements for Indian economic growth do exist. Internally Indians possess land, natural resources and surplus labor. They possess sovereignty over their land and people. The possession of land and sovereignty dictates that Indian development must follow an approach different from other minority groups.

There exist a whole array of external factors that if properly organized could lead to significant economic progress. All programs to assist minorities on the part of the Federal government of definition, must include Indians. And, because of the unique Federal/Indian relationship, there also exists programs and agencies designed to serve Indians as a separate classification. There is for example, the Indian business development program in the Bureau of Indian Affairs created by the Indian Financing Act. The "Buy Indian" act and the enforcement of Public Law 93-638 compelling HHS-ANA to award competitive bid contracts to Indian owned firms on a preferential basis. The "Buy Indian" provisions of the act create an immediate multimillion dollar market for Indian enterprises. Additionally, past legislation regarding local public works has clearly spelled out that 2 percent of appropriations could be earmarked for Indian community public works.

Federal resources are not the only external factors available for Indian economic development. The States can and should become more aware of the responsibility they have in helping to create more favorable conditions for Indians. The creation of State Indian Coordinators and special Indian Commissions on the state levels are indicators of a new trend. The importance of Indian economic development must be recognized.

The growing importance of land and natural resources is creating more opportunities for Indians in agriculture, recreation, resource development, construction, manufacturing and services industries. In short, the resources and opportunities exist for Indian economic growth but this can only be accomplished through systematic assistance in overcoming the barriers to Indian economic development.

The litany of statistics that underscore American Indian suffering lead to the undeniable fact that Indians are the tragic victims of poverty to a much larger degree than any other group of citizens. This unhappy state of affairs is the result of both overt actions to disinherit Indian people and the very real neglect of Indians since the founding of our country.

In spite of the low level of Indian economic achievement, Indians possess the basic elements of human and natural resources necessary for economic progress. Indians across the nation are ready for accelerated economic growth.

How can the forces for progress be organized and directed in such a manner as to overcome the barriers to Indian economic achievement? Perhaps, the answer lies in looking at examples of past achievement. The lessons learned are valuable in creating a vehicle for replicating successful experiences throughout the nation.

One example is the Pala Band of Mission Indians. This reservation located in San Diego County is redeveloping its agricultural base. The project began with a 100 acres of field corn and bank financing secured by contract sales negotiated with local dairies. With this track record the tribe secured larger financing for planting alfalfa. Future plans call for eventually putting 12,000 acres into producing row crops, cut flowers, citrus and avocados, and alfalfa. They are making a start at a long range program toward self-sufficiency.

Another is the MA-TAR-AWA RV Camper Park owned by the Viejas Indian community near Alpine, California. They are operating a successful camper park which is creating jobs and income while laying the base for future successful development.

In 1972 there were 20 Indian owned businesses in California. Today there are over 600 companies. In the past year gross sales for these firms has exceeded $110 million and over 1,700 new jobs were created by Indian business expansion. More importantly, the success ratio has been over 95 percent.

The factors important to the success of these examples are easily identified:

The desire to create the venture came from the Indian community or individual. The desire was not externally imposed; there existed an economic/business opportunity to successfully compete in the market place; the enterprises was within the experience range of the Indians involved; the combination of Indian talent and resources with business opportunity in a solid business plan, coupled with competent support services attracted both public and private financing; technical and management assistance tailored to the individual case was available from the planning

stages through start-up; and on-going technical and management assistance was available to overcome the problems encountered in the operations.

We feel it is not difficult to envision a nationwide system for delivering client initiated business and economic development assistance.

Indians however, cannot do the job alone. There must be an active partnership developed between Indians, government and private industry. Government can make a positive contribution to Indian economic progress by providing assistance on three tiers.

We recommend that the first tier would be composed of a marshalling of government contracting, financing and technical assistance resources. These resources possessed by a variety of agencies and departments need to be expressed in terms of a plan to reach a stated goal. A United States Indian Development Board composed of representatives from key "resource" agencies along with Indian representatives and chaired by the Vice President would assist each agency develop its goal planning and would monitor the progress made and the impact on Indians.

On the second tier help must establish a nation wide delivery system of technical and management assistance. The delivery system must have a minimum of twelve regional field offices to serve all areas of Indian population in the nation. The offices would provide ongoing assistance to tribes, groups and individuals who want to pursue business ownership opportunities.

Finally, Federal participation must be secured in financing. Private sector support can be obtained in a multi-faceted program from financing to bonding. The total capital needs of Indians start out at approximately $800 million, required to capitalize an Indian development bank throughout the U.S.

This must be a direct flow of coordinated assistance to Indian communities and individuals to help them achieve their economic and social goals. The complex "catch as catch can" system now operating is an efficient system that frustrates not only Indian people but also the objective of helping Indians. The direct link between economic growth and income and job creating enterprises can no longer be ignored. Given the severe problems faced by Indians and the high cost of income transfer payments, the investment in this effort has more than ample justification. History and simple justice demand at least this much.

Mr. MITCHELL. Thank you very much. I gather that where Indians are located in urban areas there is a better shot for them to get into business than on a reservation.

Second, your program that you outlined is meritorious and I think it is the kind of program that I would support but I would hasten to add that given the parsimonious attitude of this Congress, the cuts that are being made across the board, I think it is most unlikely that in this Congress we would see it implemented. That is not denying the merit of it. It is simply saying that is the mood.

No new programs, no more expenditures and that kind of thing which forces us then to look back on what is now available to you and make it work. I am shocked that the SBA has not done more.

Mr. STALLINGS. We believe that more can be done just by directing current efforts without additional appropriations for these programs.

Mr. MITCHELL. I can assure you that we will be focusing in on both MBDA and SBA in terms of help for you. You are entitled to it. It is just that simple and you ought to be getting it. Am I right in assuming that in terms of Indian economic development it would be across the board, all kinds of businesses?

Mr. STALLINGS. Absolutely.

Mr. MITCHELL. Now, Congressman Daub asked me to put these questions to you. How do you view the 8(a) program's effect on Indians as compared to other groups and I think in the last part of your testimony you already answered that. It is negligence. You are not included despite the fact that under the law you should be

included. Do you have any idea of how many 8(a) Indian firms we have?

Mr. STALLINGS. Yes. There are just over 100 Indian 8(a) firms but as of last year less than 10 percent of those firms actually received 8(a) contracts.

Mr. MITCHELL. His second question was, do you think that the needs of native Americans require consideration in a fashion distinct from the 8(a) program? Again based on your last recommendation of setting up a board with a vice president and an $800 million infusion, I would gather that the answer to that is yes. This is a distinct minority problem separated out from other minority problems in your opinion; is that correct?

Mr. STALLINGS. Yes, in our previous testimony to this committee on the 8(a) program we pointed out some of the different regulatory requirements for Indian 8(a) firms, and Indian tribal eligibility for the 8(a) program which is something that in our mind still hasn't been resolved by the SBA.

Mr. MITCHELL. Congressman Daub believes that a special hearing to address the concerns of native Americans ought to be conducted. I would have no problem doing that, but I am not anxious to do it. I think what we would get would be another recitation of the problems and now we know them. It seems to me that we ought to set up maybe a special task force of this subcommittee just to focus in on the agencies to make them do what is expected of them.

I will chat with you, Congressman, on that. I will have a hearing if he really is totally committed to it. I don't like hearings that much to tell you the truth. I only like them when I know that there is a specific program that can come out, which we can implement, or some specific maladministration that we can follow. You have indicated that there has been, if not maladministration, a pattern of ignoring. So let me check with him and see if we can't maybe set up a little special subcommittee to focus in on just the two agencies with which we are dealing today.

Mr. STABLER. Mr. Mitchell, I am in total agreement with whatever approach you take. I think our message is clear. There needs to be a form or format by which we can relate to this committee information concerning particulars relevant to Indian economic business development.

Mr. MITCHELL. Staff will remind me to get together with Congressman Daub and maybe set up a little task force of this subcommittee and I would be very pleased to serve on it. My argument is if they don't do right by you, they aren't going to do right by Blacks. It is just that simple, and I would be very happy if we can work up a task force.

Thank you, gentlemen.

Now to the remaining witnesses, I know you are weary, and pressed for time. I am grateful for your patience. When we have these hearings it is just unavoidable and I do apologize. Gentlemen, we would like to receive your testimony.

Our next witnesses are Roy Littlejohn, president of the Black Presidents' Roundtable Association, and L. H. Smith, Jr., president of L. H. Smith Oil Corp. Gentlemen, please proceed.

TESTIMONY OF L. H. SMITH, JR., PRESIDENT, L. H. SMITH OIL CORP., INDIANAPOLIS, IND., ACCOMPANIED BY LES LEPOW AND DIANE CORNELL, ATTORNEYS

Mr. SMITH. Thank you, Mr. Chairman.

I am the president of L. H. Smith Oil Corp., a minority-owned small business petroleum products reseller located in Indianapolis, Ind. I am accompanied today by Les Lepow and Diane Cornell of the law firm of Squire, Sanders & Dempsey. It is a pleasure to appear before the committee this morning. I will keep my comments brief and submit a more comprehensive statement for the record.

My firm has been a participant in the Small Business Administration's section 8(a) program for the past several years. I believe that this experience puts me in a good position to comment on problems which my firm and other small firms in the petroleum industry are having with the Small Business Administration and Defense Department procuring activities.

Smith Oil has certainly benefited from the 8(a) program in the past, but I am here today because I feel that some of the attitudes and procedures of the agencies administering the 8(a) program threaten to undermine the progress which my firm and other minority oil dealers have made through the program. A difficulty which has been particularly apparent to petroleum products firms is that officials at SBA often exhibit a lack of sensitivity to the problems facing us in our industry which I suspect reflects either inexperience or a bias within the agency against capital intensive industries.

This problem has recently been demonstrated most vividly by the delay and communication difficulties created by the SBA requirement that virtually all contracts be approved by the Central Office of SBA. This review process has created havoc for most minority businesses participating in the 8(a) program. It has, however, been particularly troublesome for 8(a) oil firms, which generally have only one 8(a) oil supply contract with the Defense Department each year.

We are thus most affected by the delays associated with the central office approval process because an individual contract is such a large component of our 8(a) business, and because each of our contracts is subject to the central office approval requirement. The uncertainty and delay caused by this approval procedure creates tremendous problems for us because it severely impairs our ability to plan ahead and make the necessary business commitments with our banks and suppliers.

The requirement of central office approval of contracts has also generated a great amount of tension between central, regional and district office officials of the SBA and has placed the 8(a) portfolio member in a precarious position. Individuals in the regional offices who are most familiar with a particular firm's needs, history and growth are not authorized to make final agency business decisions which vitally affect the firm.

Well-intentioned officials in the central office, overwhelmed by the multitude of business decisions which they are required to make and unfamiliar with the industry involved or with the busi-

ness exigencies of the 8(a) firms in the field, are often unable to make the best business determinations.

The problem is further aggravated by the fact that firms such as mine do not even know who in the central office is making the decisions and are unable to discuss their business problems with them.

It is frustrating to be asked questions on contract support level by regional office personnel who say "the central office" needs this, when earlier this year I submitted a business plan and discussed and agreed upon contract levels with the same regional officials.

It is equally frustrating to learn that all contract support may be denied by officials in Washington whom I can't even meet. The requirement, in many cases, that no fewer than a dozen individuals in the central office of the SBA personally review a file which has previously received scrutiny at both the district level and the regional office level strikes us as being an unreasonable waste of limited agency resources.

Additionally, the requirement of central office review is very time consuming and costly, often resulting in injury to an individual 8(a) firm because procuring agencies are unable to await the lengthy periods necessary for central office review, which in the past have been known to take up as many as 90 days.

While we applaud recent efforts of SBA to streamline the waiver process by increasing the thresholds of contract sizes which require central office approval, these efforts will have no effect on the 8(a) oil firms because virtually all our contracts will be over the threshold amount.

In my view, SBA's determination of where to set the dollar threshold triggering central office approval is a good example of SBA's lack of understanding of the economies of scale in my industry. The threshold which SBA has applied during the last year required that all contracts in excess of $2 million be approved by the central office.

In April this threshold was raised to $5 million, but given the 500 percent plus inflation rate in the oil industry in the past 10 years, a $5 million oil contract is hardly a large contract. The requirement that the central office approve all contracts in excess of $5 million will mean that officials in the regional and district offices who are most acquainted with a portfolio member's problems will not have final approval of any oil contracts performed by current 8(a) oil portfolio members.

SBA should be more industry-sensitive in setting thresholds of contract size which are subject to central office approval.

The lack of central office awareness of the economies of scale in the oil industry is also unfortunately reflected by a general lack of sensitivity to the needs of small oil businesses during their period of being phased out of the 8(a) program. As I am sure you are all aware, Public Law 96-481 required SBA to negotiate fixed terms with all 8(a) portfolio members which would determine their date of graduation from the 8(a) program.

The regulations adopted last November required that all current portfolio members be entitled to at least a minimum phaseout period of 1 year. This phaseout period was required because of an awareness that no firm could survive too abrupt a withdrawal of

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8(a) support if the 8(a) sales represented a substantial amount of its business. Notwithstanding the specific regulatory requirement that each firm be given a minimum phaseout period of 1 year, SBA's insensitivity to a particular firm's needs has caused it to make decisions which undermine this requirement.

In the last few months I know of several instances where central office personnel have made decisions regarding the level of contract support of 8(a) firms which indicate that they do not fully appreciate the contract needs of the 8(a) firm. Oftentimes central office personnel have unexpectedly cut the size of an 8(a) contract without ever contacting the 8(a) firm in question, explaining the agency's business rationale or permitting the firm to negotiate with the agency the proposed decrease in assistance.

Of equal concern is the fact that in some cases SBA is willing to provide contractual assistance during the phaseout period, but is not willing to provide appropriate financial assistance. I would like to expand on this point concerning financial assistance. SBA appears to have recently cut back on its willingness to provide working capital assistance to 8(a) firms performing Government contracts.

While this may be due in part to the failure of a small number of 8(a) firms to liquidate advance payments, the many should not suffer because of the few. Many large Federal contractors seek advance payments or progress payments to alleviate cash flow problems caused by the slow payment practices of Government customers. SBA should also assist its portfolio members with this problem.

It is ironic that at the very time when the U.S. Congress realizes the cash flow dilemma of Government contractors and has enacted the Prompt Payment Act, SBA has become increasingly insensitive to the cash flow problems of 8(a) contractors and is cutting back on granting advance payments.

I feel that our industry has been subjected to a certain amount of hardship in the financial assistance area by the central office of SBA because of the misperception that large dollar contracts result in large profits. This is simply not true for small oil dealers.

Inflation in the cost of product, the oil glut, and high delivery costs mean that we have a very low profit margin as compared to other industries. As a result, the too sudden removal of advance payment assistance from 8(a) oil companies forces firms to operate at razor-thin profit margins.

Financial assistance is especially important to an oil firm because in my industry cash flow is a crucial problem. Most oil deliveries in contracts which I have with the Federal Government may be performed in as short a period of time as 10 to 12 weeks.

My suppliers demand payment within 10 days, but my Government customers in the past have been known to take up to 60 or more days to pay for oil which I have delivered to them. In the absence of advance payments for working capital assistance from SBA, it is difficult for an oil firm to make a healthy profit when receivables are delayed this long.

In the past, advance payments have been an important ingredient in the progress I have made toward improving Smith Oil's financing capability, a factor crucial to developing commercial business.

SBA must realize that just as it must withdraw contract support gradually from an 8(a) firm, but it cannot do so overnight without disrupting banking relationhips and a firm's ability to grow financially.

Furthermore, SBA should not deny advance payments without apprising firms of what is reasonable progress in reduction of reliance on advance payments. I really don't know what progress is expected from SBA. Another perception problem concerning 8(a) participation in my industry is that SBA officials are often unaware that participation does not shelter a firm from competition. While many believe that prices paid to 8(a) contractors are vastly inflated above normal economic conditions, the opposite is true.

The price of section 8(a) oil contracts are set by winning bidders in regional non-8(a) competitive solicitations corresponding to the items supplied by the 8(a) contractor. These winning bidders are often major oil companies. If I am unable to match the prices which the major oil companies have bid in their winning contracts I will not be awarded the contract by SBA or by the Defense Department. The 8(a) program is far from a giveaway.

The difficult times which the oil industry and 8(a) oil firms have experienced in the past year are not unique. All industries have been struck severely by the recession, and minority businesses in all sectors of the economy are hurting. My experience with the SBA leaves me extremely concerned that SBA is unaware of, or is insensitive to, the problems of 8(a) firms in these difficult economic times.

The Small Business Administration has yet to issue final regulations which will describe the criteria for granting extensions of a firm's fixed term on the 8(a) program. It is important for SBA to realize that the recession has made it difficult for a firm to grow commercially this year or in the past few years.

Oftentimes the mere fact that a firm maintains its percentage or market share of commercial business evidences tremendous progress by that firm, given the general economic conditions in the United States today.

We believe that the extension regulations should be flexible enough to accommodate the needs of 8(a) firms in the current economic climate, and that the SBA should be liberal in the granting of extensions to 8(a) firms to allow them an additional 12 or 24 months to participate in the program until the economic picture brightens once again.

I would like to conclude my comments by merely restating the obvious.

The purpose of the Small Business Administration's section 8(a) program is to promote the competitive viability of economically and socially disadvantaged firms. It takes time for a minority vendor to become competitively viable and assure himself a base of commercial businesses from which he can grow and prosper in his local community. It is especially difficult to do that during recessionary times.

It is my hope that the SBA will be flexible in permitting firms a greater period of time to participate in the program if this is justified by economic conditions and the firm's progress. SBA must realize that firms in certain industries need more time than firms in

other industries. SBA must also recognize that the mere fact that a firm is awarded a larger dollar contract does not mean that it will enjoy large profits.

Thank you for your time. I will be pleased to respond to your questions.

[Mr. Smith's prepared statement follows:]

PREPARED STATEMENT OF L. H. SMITH, JR., PRESIDENT, L. H. SMITH OIL CORP. INDIANAPOLIS, IND.

My name if Lannie H. Smith, Jr. I am the president of the L. H. Smith Oil Corporation, a minority-owned small business petroleum products reseller located in Indianapolis, Indiana. I am accompanied today by Les Lepow and Diane Cornell of the law firm of Squire, Sanders & Dempsey. It is a pleasure to appear before the Committee this morning. I would like to focus my testimony on the treatment which my firm and other oil dealers have received in the 8(a) Program because I feel that the attitude of the administrators of this program is symptomatic of the overly simplistic view which the Federal Government has toward the development of minority business.

My firm has been a participant in the Small Business Administration's Section 8(a) Program for the past several years. I believe that this experience puts me in a good position to comment on problems which my firm and other small firms in the petroleum industry are having with the Small Business Administration and Defense Department procuring activities. Smith Oil has certainly benefited greatly from the 8(a) Program in the past, but I am here today because I feel that some of the attitudes and procedures of the agencies administering the 8(a) Program threaten to undermine the progress which my firm and other minority oil dealers have made through the program.

I think that it will be easier for you to appreciate the points I want to make concerning the administration of the 8(a) Program if I briefly describe the manner in which my firm has participated in the program. Most of the contract support we receive through the 8(a) Program comes from one annually solicited contract with the Defense Fuel Supply Center (DFSC) to supply oil to various military installations in the Midwest area. We have now been performing this contract successfully for several years, and during this time we have not only developed good working relationships with our government customers, but also, and perhaps more importantly, with our banks, suppliers, and an ever-increasing number of commercial customers. Furthermore, as I will explain in detail later in this testimony, the prices paid to us by the government are the same as prices in the non-8(a) government market, so the notion that 8(a) contracts are "sheltered" is incorrect. Just as non-8(a) federal prime contractors seek advance or progress payments to alleviate the slow payment practices of government agencies, we too have requested advance payments to assist us in financing our Defense contracts. We have fully liquidated every advance payment debt in the past, and as the corporation's financing capability has improved we have been able to steadily reduce our reliance on advance pay. The reason why our participation in the 8(a) Program and the availability of advance payments is so crucial to the eventual success of my firm is that the experience and financial growth which we have gained has enabled us to greatly expand the commercial business that will sustain the firm when it graduates.

As I indicated earlier, I feel that much of the progress which minority firms have made in the 8(a) Program is being jeopardized by the manner in which the program is being administered. A difficulty which has been particularly apparent to petroleum products firms is that officials at SBA often exhibit a lack of sensitivity to the problems facing us in our industry, which I suspect reflects either inexperience or a bias within the agency against capital intensive industries. This problem has recently been demonstrated most vividly by the delay and communication difficulties created by the SBA requirement that virtually all contracts be approved by the Central Office of SBA. This review process has created havoc for most minority businesses participating in the 8(a) Program. It has, however, been particularly troublesome for 8(a) oil firms, which generally have only one 8(a) oil supply contract with the Defense Department each year. We are thus most affected by the delays associated with the Central Office approval process because an individual contract is such a large component of our 8(a) business, and because each of our contracts is subject to the Central Office approval requirement. The uncertainty and delay caused by this approval procedure creates tremendous problems for us because it severely impairs

our ability to plan ahead and make the necessary business commitments with our banks and suppliers.

The requirement of Central Office approval of contracts has also generated a great amount of tension between Central, Regional and District Office officials of the SBA and has placed the 8(a) portfolio member in a precarious position. Individuals in the regional offices who are most familiar with a particular firm's needs, history and growth are not authorized to make final agency business decisions which vitally affect the firm. These regional offices have often had years of experience with a particular firm, and have had the opportunity to understand the firm's needs. The process of evaluating one of my Defense Fuel Supply Center contracts is very complex. The Regional Office has spent years becoming familiar with the details of this contract, and has acquired an understanding of the financing and supply difficulties which Smith Oil faces. The Regional Office understands that competitive conditions in my geographical area such as the dominance of a few major oil companies and the absence of independents, the proximity to terminals, the specific bid closing dates of regional solicitations, the competition from natural gas suppliers, etc., all affect the profit level in my contract and create unique financing requirements for Smith Oil. Central Office personnel could not possibly be expected to appreciate such details for the many industries and areas they must encounter in the course of the approval process. The recommendations of regional offices have often been overturned or altered by well-intentioned officials in the Central Office, who, overwhelmed by the multitude of business decisions which they are required to make and unfamiliar with the industry involved or with the business exigencies of the 8(a) firms in the field, are often unable to make the best business determinations. The problem is further aggravated by the fact that firms such as mine do not even know who in the Central Office is making the decisions and are unable to discuss their business problems with them. The requirement, in many cases, that no fewer than a dozen individuals in the Central Office of the SBA personally review a file which has previously received scrutiny at both the District and Regional level strikes us as being an unreasonable waste of limited agency resources.

An additional problem with the Central Office review process is that it is very time-consuming, often resulting in injury to an individual 8(a) firm because procuring agencies are unable to await the lengthy periods necessary for Central Office review, which in the past have been known to take up to as many as 90 days. This has created a great deal of strain with procuring agencies such as the DFSC because they are never sure when or whether an 8(a) contract will be approved, and sometimes SBA has failed to meet deadlines beyond which a procuring agency can no longer hold the contract for the 8(a) firm and must resolicit the items involved. This year it took months for the various SBA offices to review my DFSC contract, and the contract was in the Central Office alone for nearly three months (88 days). Neither I nor DFSC knew from one minute to the next whether the contract would be approved and in what amount. This put DFSC in the very difficult position of having to extend its deadline several times in an effort to preserve its contracting relationship with Smith Oil. A procuring agency which has been so cooperative in the past in developing small and minority businesses should never be forced into this kind of position by the SBA, an agency which should be fostering contracting opportunities with government agencies rather than generating bad will through inexcusable delay.

The delay and uncertainty of the Central Office approval process also has had a tremendous adverse impact on my firm's planning ability. In the course of obtaining Central Office approval for this year's DFSC contract, the Regional Office's recommendation that advance payments to be approved for my contract was reversed and the volume of our proposed contract was cut. After having completed the process of negotiating the remaining term of my tenure on 8(a) with SBA regional officials and submitting a business plan to them, it was confusing to hear that the Central Office was considering denying the very support that I earlier discussed and agreed upon with District and Regional officials. This confusion meant that we never were sure whether we had the contract or what size it would be, so we were unable to conduct firm negotiations with our banks or our suppliers. We were also greatly hampered in our marketing ability because we were unable to develop appropriate sales projections or business plans for the company for more than two months in advance. An additional problem is that it is essential to monitor the progress of the review of a proposed contract through the Central Office maze. This is time-consuming and costly and detracts from time that could be spent on developing commercial business.

While we applaud recent efforts of SBA to streamline the review process by increasing the thresholds of contract sizes which require Central Office approval,

these efforts will have no effect on the 8(a) oil firms because virtually all our contracts will be over the threshold amount. In my view SBA's determination of where to set the dollar threshold triggering Central Office approval is a good example of SBA's lack of understanding of the economies of scale in my industry. The threshold which SBA has applied during the last year required that all contracts in excess of $2 million be approved by the Central Office. In April this threshold was raised to $5 million, but given the 500 percent plus inflation rate in the oil industry in the past ten years, a $5 million oil contract is hardly a large contract. The requirement that the Central Office approve all contracts in excess of $5 million will mean that officials in the Regional and District Offices who are most acquainted with a portfolio member's problems will not have final approval of any oil contracts performed by current 8(a) oil portfolio members. SBA should be more industry-sensitive in setting thresholds of contract size which are subject to Central Office approval and should gradually phase out the requirement of Central Office approval in the next year.

The lack of Central Office awareness of the economies of scale in the oil industry is also unfortunately reflected by a general lack of sensitivity to the needs of small oil businesses during their period of being phased out of the 8(a) Program. As I am sure you are all aware, Public Law 96-481 required SBA to negotiate fixed terms with all 8(a) portfolio members which would determine their date of graduation from the 8(a) Program. The regulations adopted last November required that all current portfolio members be entitled to at least a minimum phase out period of 1 year. This phase out period was required because of an awareness that no firm could survive too abrupt a withdrawal of 8(a) support if the 8(a) sales represented a substantial amount of its business. Notwithstanding the specific regulatory requirement that each firm be given a minimum phase out period of 1 year, SBA's insensitivity to a particular firm's needs has caused it to make decisions which undermine this requirement.

For example, Central Office personnel have made many decisions which indicate that they do not fully appreciate the contract needs of an 8(a) firm. Often times Central Office personnel have cut the size of an 8(a) contract without ever contacting the 8(a) firm in question, explaining the agency's business rationale or permitting the firm to negotiate with the agency the proposed decrease in assistance. In some cases, a firm's last 8(a) contract should be a large one, especially if it has developed a reliable base of commercial support and is engaged in a capital intensive industry. In this way, it will experience the healthy growth in net worth in its final 8(a) years which will enable it to develop strong financing and commercial credit relationships to finance future commercial business. The SBA Central Office has never focused on this problem to my knowledge, and is more concerned with cutting contracts than with considering what a firm in our industry needs to best accomplish a successful transition to commercial markets.

Of equal concern is the fact that in some cases SBA is willing to provide contractual assistance during the phase out period, but is not willing to provide appropriate financial assistance. I would like to expand on this point concerning financial assistance. SBA appears to have recently cut back on its willingness to provide working capital assistance to 8(a) firms performing government contracts. While this may be due in part to the failure of a small number of 8(a) firms to liquidate advance payments, the many should not suffer because of the few. Many large non-8(a) federal contractors seek advance payments or progress payments to alleviate cash flow problems caused by the slow payment practices of government customers. SBA should also assist its portfolio members with this problem. It is ironic that at the very time when the United States Congress realizes the cash flow dilemma of government contractors and has enacted the Prompt Payment Act, SBA has become increasingly insensitive to the cash flow problems of 8(a) contractors and is cutting back on granting advance payments.

I feel that our industry in particular has been subjected to a certain amount of hardship by the Central Office of SBA because of the misperception that large dollar contracts result in large profits. This is simply not true for 8(a) oil dealers. One reason is that often the dollar value of the contract awarded by SBA is for an estimated quantity of deliveries, and the procuring agency may only order half the estimated amount so that our actual receipts are roughly 50-60 percent of the dollar value listed in SBA's files. A second, more important reason is that inflation in the cost of product, the "oil glut" and high delivery costs mean that we have a very low profit margin as compared to other industries. The sudden removal of advance payment assistance from 8(a) oil companies further forces firms to operate at razor-thin profit margins.

Cash flow is a crucial problem in my industry. The majority of a one-year contract which I have with the Federal Government may be performed in as small a period of time as 10–12 weeks. My suppliers demand payment within 10 days, but my government customers in the past have been known to take up to 60 or more days to pay for oil which I've delivered to them. The average turnover of a government receivable is more than 3 times that of a commercial receivable. Unfortunately, it is too simplistic to presume that I can simply forego government 8(a) business just because I have cash flow problems. With competition from natural gas suppliers, plant shutdowns and escalating oil prices, it takes time to develop commercial business to displace government work. In the absence of advance payments for working capital assistance from SBA, it is difficult for an oil firm to make a healthy profit when government receivables are delayed so long and money costs are high. In the past, advance payments have been an important ingredient in the progress I have made toward improving Smith Oil's financing capability, a factor crucial to developing commercial business. SBA must realize that just as it must withdraw contract support gradually from an 8(a) firm, it should also gradually withdraw financial assistance from an 8(a) firm, but it cannot do so overnight without disrupting banking relationships and a firm's ability to grow financially. SBA must also let a firm know what progress in reducing reliance on advance payments is expected. My firm reduced its advance payment request each year despite tremendous inflation in product cost and was still denied funds. Greater disclosure of SBA's policies must be made to the 8(a) firms.

A related perception problem concerning 8(a) participation in my industry in particular is that many are unaware that participation in the 8(a) Program does not shelter a firm from competition. While some believe that prices paid to 8(a) contractors are vastly inflated above normal economic conditions, indeed the opposite is true. The price of Section 8(a) oil contracts are set by winning bidders in regional non-8(a) competitive solicitations corresponding to the items supplied by the 8(a) contractor. These winning bidders are often major oil companies. If I am unable to match the prices which the major oil companies have bid in their winning contracts I will not be awarded the contract by SBA or by the Defense Department. A further problem in the performance of Section 8(a) fuel oil contracts with the DFSC is the fact that this year oil firms are reimbursed for escalations in the price of oil according to the value of changes in published indices which do not necessarily reflect either the value of the firms' actual costs or the frequency with which it receives price increases. This problem could result in serious losses for 8(a) firms and requires the immediate attention of both SBA and DFSC. Because of all these problems, the 8(a) Program, as far as oil is concerned, is far from a give-away.

The difficult times which the oil industry and 8(a) oil firms have experienced in the past year are not unique. All industries have been struck severely by the recession, and minority businesses in all sectors of the economy are hurting. My experience with the SBA leaves me extremely concerned that SBA is unaware of or is insensitive to the problems of 8(a) firms in these difficult economic times. The Small Business Administration has yet to issue final regulations which will describe the criteria for granting extensions of a firm's fixed term on the 8(a) Program. It is important for SBA to realize that the recession has made it difficult for a firm to grow commercially this year or in the past few years. Often times the mere fact that a firm maintains its percentage or market share of commercial business evidences tremendous progress by that firm given the general economic conditions in the United States today. After SBA and procuring activities have expended years of resources enabling firms to learn the intricacies of government procurement and develop relationships with suppliers and commercial customers, it does not make sense to cut off resources so suddenly that the benefit of this progress is lost. We believe that the extension regulations should be flexible enough to accommodate the needs of 8(a) firms in the current economic climate, and that the SBA should be liberal in the granting of extensions to 8(a) firms to allow them an additional 12 or 24 months to participate in the program until the economic picture brightens once again.

I would like to conclude my comments by merely restating the obvious. The purpose of the Small Business Administration's Section 8(a) Program is to promote the competitive viability of economically and socially-disadvantaged firms. It takes time for a minority vendor such as myself to become competitively viable and assure himself a base of commercial business from which he can grow and prosper in his local community. It is especially difficult to do that during recessionary times. It is my hope that the Small Business Administration will be flexible in permitting firms a greater period of time to participate in the program if this is justified by economic conditions and the firm's progress. SBA must realize that firms in certain industries need more time than firms in other industries. SBA must also recognize that the

mere fact that a firm is awarded a large dollar contract does not mean that it will enjoy large profits.

Mr. SMITH. Thank you for your time and I will be pleased to respond to any questions.

Mr. MITCHELL. Thank you, Mr. Smith. This has been the most troublesome area for me with SBA, that is, with the minority-owned oil companies. In my paranoia, from time to time, I fear that the giant oil corporations might be flexing their muscles somewhere in the bureaucratic mazes because every minority, or Black oil firm that I know has had just unceasing difficulty with SBA and with DOD on these contracts. I said it is my paranoia that would cause me to believe that the big boys might be indicating, don't let them get in it too deep. I want to make it clear that that is just the ramblings of a committee chairman not founded on fact.

How long have you been in business?

Mr. SMITH. Twenty years.

Mr. MITCHELL. And what percent of your businesses is Government contracts?

Mr. SMITH. Forty-five percent.

Mr. MITCHELL. Well, that means you could almost go out of business with 45 percent.

Mr. SMITH. Very true.

Mr. MITCHELL. We will follow up on your recommendations. I think they make just good sense that for the oil companies in particular there ought to be an extension of time and certainly a more flexible pattern of advanced payments and I have asked the staff to make a note on that so that I can direct a letter to the Administrator.

The oil business is just crazy and has been for the past 5 years. It is perhaps one of the most volatile businesses that we have in America today and I think the administration ought to take that into account. What, if anything, have you done to expand your non-Government base?

Mr. SMITH. I have done everything that is possible. I often hear things about the private sector but to overcome a lot of attitudes out there it is very difficult. But we are sacrificed in other areas and beefed up our marketing department and sales and have attempted to, for the past 8 years, to increase our non-Government businesses but they are in this kind of a catch-22, tied in with the advance payments and tied in with the financing capabilities you might be accused of growing too fast and at one point in time we were.

It takes so much capital in that business. But one thing that I think could help, especially minority oil firms and oil firms dealing with the SBA, you spend so much administrative time just to follow the contract through, so many of your resources are exhausted where if those resources could be channeled to the private sector, certain things, I think, with the SBA should be automatic, but nothing is automatic with them. You never know where you stand. You make a business plan and if you follow their procedures but they feel they have no obligation to the companies in the portfolio to tell them where they are.

Mr. MITCHELL. Have you had any contact at all with the Minority Business Development Agency?

Mr. SMITH. No; I have not.

Mr. MITCHELL. Well, based on the testimony from the Director this morning he made it clear that he is going to encourage more activity in the private sector. It might be good just to at least meet with him and talk and see whether there is any fertile ground to be pursued there. Also, I give you my word that we will include in our letter the matter of raising the threshold for oil companies. I know that I pay. I was doing very well on gasoline and oil for a while up until recently. Gasoline has now gone up. Oil has gone up again. That threshold has got to be raised.

Mr. SMITH. Yes; and I think there are so many factors in a business which is so volatile, that certain decisions which are made in Washington, for example, to review the case of *x* company, cannot be done adequately the way the system is set up.

There are oil problems in the Midwest that are different from the east coast. These factors are not taken into consideration in decisions that are made here in Washington by the central SBA. The tragic thing is that a lot of things I think are lost in the translation. The more parties you go through, the more distorted the situation becomes. You talk to the district and the district talks to the region and the region talks to Washington and by the time it gets here it is not the story that you started with.

In business the SBA is contradicting, I think, a cardinal rule of business. You talk to the horse's mouth. If Mr. Sanders makes a decision, then talk to Mr. Smith. If he makes the decision. That is a frustrating situation.

Mr. MITCHELL. The other thing that disturbs me is every good business in the private sector has options. Given these conditions we will pursue option A. Given these, option B or option C. Unfortunately, and it is not true of SBA, but it is true generally of governmental agencies. When they make their decisions there are no options. When you talk about a threshold of $5 million, obviously options have to be pursued there.

Thank you for your testimony.

Now the dean himself will enlighten us.

Mr. Littlejohn, thank you for being very patient and waiting.

TESTIMONY OF ROY LITTLEJOHN, PRESIDENT, BLACK PRESIDENTS' ROUNDTABLE ASSOCIATION

Mr. LITTLEJOHN. Thank you, Mr. Chairman.

As usual it is a pleasure for us to appear before you.

I am Roy Littlejohn, president of the Black Presidents' Roundtable Association. As you know, the Black Presidents' Roundtable is an organization of the presidents of over 200 firms in the Greater Washington metropolitan area with members as far away as California. Our companies are diverse in nature with capabilities that include professional services, manufacturing, retail, architecture and engineering, financial management, communications, research and development, construction, and public affairs.

The Black Presidents' Roundtable is a unique organization of chief executive officers of black-owned and operated firms. Our members have advance academic backgrounds and professional experience in economics, law, finance, public administration, science,

business administration, marketing, public policy formulation, and implementation.

Many of our members have held responsible senior level management positions in the public and private sectors, including the Congress and agencies of the Federal Government.

The roundtable's uniqueness is further exemplified by its working committees which are comprised of chief executives who themselves identify and work on issues affecting the minority business community.

Current committees include 8(a) and other minority support programs, political action, economic development, finance, communications and organization. As required, issue-oriented task forces are formed to study and make recommendations on policies and actions which impact the interests of our members and the minority business community at large.

Roundtable members are involved in a wide range of civic, political, and community programs, contributing our personal time and resources to the economic growth and development of our communities and the Nation.

We, as individuals, have chosen to enter the marketplace with full recognition of the attendant risks. We obviously have also taken this step in the hope of realizing the potential rewards of entrepreneurship, for ourselves, our families, our employees, our communities, and for the Nation, which result from successful business enterprises.

Mr. Chairman, we appreciate the opportunity to share with this committee information which we believe serves to underscore the concern within the minority business community that there is a concerted effort by forces in the public and private sector to turn back the clock, to reverse—yes, to destroy—the modest progress made by minority business during the past 10 years.

Much of this progress has been made possible by minority business development support programs within the Federal Establishment, most particularly the 8(a) program of the U.S. Small Business Administration.

Efforts to strengthen the 8(a) program, particularly with your leadership and that of Representative Addabbo, resulted in the passage of this landmark legislation. However, its implementation has been sabotaged by those who would reject the right of minority business to obtain an equitable share of Federal procurements and subcontract dollars within the private sector.

During the past 18 months, opposition to minority acquisition of an equitable market share has risen dramatically. With the exception of your voice and a few others of your colleagues in the Congress, the decline of Government commitment to support minority business development has proceeded downhill at a rapidly increasing pace. It can be generally stated that minority firms across this country are being destroyed by the double-edged sword of a depressed economy and institutional racism.

We recognize that this economic recession plagues all aspects of American life, that the reduction of economic growth causes serious social dislocation, and threatens our national security. While all small business is being adversely affected, which is evidenced by the fact that there are more bankruptcies now than in the last 40

years, the additional burden of institutional racism and arbitrary constraints in the marketplace presents minority business with compounded problems, and heightens the prospects for the destruction of our businesses.

We do not argue here that we are frequently faced with overt acts of discrimination by any single individual. But we are constantly faced with the intractable nature of the "good olde boy network," the insidious nature of the procurement process which does not allow us equal access, and growing insensitivity to problems of race. The result of all of this is a lessening of opportunity.

We at the Roundtable have become increasingly concerned about the cumulative effect of all of these conditions on our membership. A recent sampling of Roundtable members considered the impact of this double-edge sword. Twenty-four of our firms responded to the following questions:

How many years have you been in the 8(a) program?

What fixed program participation term were you given?

How many new contracts have you received since January 1981?

When did you receive your last contract?

How many employees have you laid off since January 1981?

What impact have changes in Federal policies and contracting procedures which implement minority support programs had on your revenues?

The results were startling.

The average time in the 8(a) program was 7 years.

The average FPPT received was 3 years. Thirty-three percent received FPPT's of 2 years or less.

The average number of contracts received since January 1981 was five.

Forty-two percent of the firms had received two contracts or less since January 1981.

Four firms received no contracts since January 1981.

This is where the real bottom line begins to reveal itself:

The average number of employees laid off by these small firms since January 1981 was 26.

Total employees laid off during the same period by these 24 firms was 309.

One firm had been forced to lay off 70 of its 84 employees since January 1981.

Four firms lost one-third of their work force.

Four firms lost one-half of their work force.

Three firms lost two-thirds of their work force.

Almost 50 percent of the firms surveyed have lost one-third or more of their work force. One company president reported that none of his laid off employees have found work, and over 30 percent of the firms have suffered a 50 percent reduction in dollar volume of 8(a) contracts. Three firms have suffered an over 70 percent reduction in 8(a) contract dollar volume.

Those firms that have increased their marketing efforts with the Department of Defense have experienced the least negative impact.

Our unavoidable assumption and perhaps conclusion is that the findings of our Roundtable sampling is representative of the impact on similarly situated minority firms throughout the United States. After having said all that, these grim facts are compounded by

recent indication that at least six of the key experienced personnel in the Minority Business Development office of SBA who are responsible for processing 8(a) procurements have agreed to take "early outs."

These massive SBA staff reductions of experienced personnel and similar reductions of 8(a) support staff by Federal agencies is further evidence of declining Federal commitment to the development of minority business.

It is our opinion that Federal MBE support programs were initiated to counter the distorting effect of systemic and symptomatic discrimination on the marketplace. These programs can work. There is no need for reorganization or consolidation of the present program delivery system.

What is needed is a clear commitment, in word and deed, at every level of the Federal Establishment to make these programs work.

In closing, I would like to submit for the record several items: The first is a letter with attachments which is representative of the problems experienced by many Roundtable companies in securing SBA assistance updating their business development plans and increasing their levels of 8(a) contract support.

The second is a copy of recent testimony by a Roundtable representative, Mr. Lawyer A. Martin, before the President's Advisory Committee on Small and Minority Business Ownership offering specific recommendations for improvement in the administration of the 8(a) program and subcontracting requirements of Public Law 95-507.

The third item is a paper written over a year ago by a Roundtable member which is titled, "The Benefits of Minority Business Enterprise to the U.S. Economy." Mr. Chairman, thank you again for the opportunity to appear before your committee.

I would be pleased to answer any questions which you may have.

[The materials referred to above from the Black Presidents' Roundtable Association follow:]

LETTER AND ATTACHMENTS OF JAMES V. CLARK TO CHAIRMAN PARREN J. MITCHELL RE PROBLEMS OF BLACK PRESIDENTS' ROUNDTABLE MEMBERS SECURING SBA ASSISTANCE

JAMES V. CLARK & ASSOCIATES, INC.,
Washington, D.C., June 14, 1982.

Re: A 3-year chronology of our firm's unsuccessful efforts to get SBA to update JVCA's business development plan and to increase JVCA's level of support.

DEAR CONGRESSMAN MITCHELL: I hereby submit for the June 16, 1982 record, for the hearings conducted by the Subcommittee on SBA, SBIC, Minority Enterprise and General Small Business Problems of the Committee on Small Business of the U.S. House of Representatives, James V. Clark & Associates, Inc. continuing difficulties with the Small Business Administration to a.) get them to update our Firm's Business Development Plan, and b.) to increase JVCA's Level of Support. Please note, our Firm's request and appeal for a revised Business Development Plan, and more recently an increased Level of Support, has been pending for almost three (3) years.

We are attaching the following six letters to document JVCA's diligent efforts to comply with SBA's standard operating procedures and the difficulties which we have encountered:

December 18, 1979—Letter to Mr. Joseph Tunstall requesting authorization to add computer software/hardware sales, services and leasing to JVCA's capabilities.

May 28, 1981—Letter from Mr. Freddie Collins (note time-lag before response) declining JVCA's request to include ADP in our capabilities.

August 11, 1981—Letter from JVCA appealing the declination of our Firm's request for authorization to amend its Business Development Plan. Note: Also attached are letters from the Departments of Agriculture and Commerce indicating that they would utilize our Firm's ADP capability if and when SBA provided the necessary authorization.

August 11, 1981—Letter from Mr. Collins (We recognize that there was an SBA error in dating their letter) acknowledging our letter of appeal. Note: SBA has not to date followed up in writing on JVCA's appeal to include computer hardware and software in its capabilities.

May 28, 1982—Letter to the new District Director, Bernard Layne, again requesting authorization to diversify into the computer sciences. Also, consistent with JVCA's FPPT negotiations, requesting a realistic Level of Support, from the given $150,000 to $4,500,000.

May 28, 1982—Letter to Dr. Robert Wright requesting his assistance in JVCA gaining authorization to amend the Firm's present Business Development Plan to include the marketing of previously used computer hardware—lease, rental, repair, and maintenance (SIC Code 7379)—and computer software (SIC Code 7392).

Congressman Mitchell, the limitations imposed by our Firm's present Business Plan, grossly limits our competitive ability. JVCA's marketing research strongly suggests the need to diversify into the computer sciences if, we expect to develop the competitive capability that is needed to achieve our $4.5 million—plus, contract goals.

I emphasize that we are, herein, not referring to "broker" type computer services. We are proposing substantial "value added" services. The Firm's distinguished record of performance abundantly substantiates our position.

Hopefully, a favorable conclusion to JVCA's "case study" of the difficulties presently being experienced with the Small Business Administration, will be facilitated as a result of making this part of the Congressional Record.

Sincerely,

JAMES V. CLARK, *President.*

JAMES V. CLARK & ASSOCIATES, INC.,
Washington, D.C., December 19, 1979.

Re Expansion of 8(a) capabilities.

Mr. JOSEPH TUNSTALL,
Assistant District Director, Minority Small Business,
Small Business Administration, Washington, D.C.

DEAR MR. TUNSTALL: James V. Clark and Associates, Inc. (JVCA) received its 8(a) Certification on April 25, 1977. JVCA's initial area of specialization was that of Organization Consultants, specializing in the custom design of workshop, seminars, and training programs, for the public private sector. JVCA has performed services in the following area:

(1) Educational Technology—the writing, producing, and editing of video tapes.

(2) Managerial Training and Development—the custom design of training programs.

(3) Focus Group Interviews.

(4) Telephone Surveys.

During the past 4½ years, JVCA has conducted a vigorous marketing program, and has always endeavored to complete service to satisfy clients' needs and requirements. A marketing research effort undertaken by JVCA also indicated the potential of the independent need for ADP capabilities, in addition to, and in conjunction with, other services.

Accordingly, JVCA has reviewed its current direction and capabilities, and has decided to add permanent ADP capability.

JVCA requests to be considered for 8(a) opportunities in area of provision of computer software/hardware, sales, service and leasing. This expanded capability will add to the growth potential of James V. Clark and Associates, by allowing us to be more responsive to the total needs of our agency clients.

We thank you for your consideration of this request and wait your response.

Sincerely,

JAMES V. CLARK, *President.*

CAPABILITY REVIEW AND REQUIREMENTS REQUEST

☐ INITIAL SUBMISSION
☒ REVISION

TO: DIRECTOR, OFFICE OF BUSINESS DEVELOPMENT
WASHINGTON, D. C. 20416

DATE: November 16, 1979

1. APPLICANT'S NAME AND ADDRESS *(Include County and ZIP Code)* James V. Clark & Associates, Inc.
1629 K Street, N.W. Suite 520, Washington, D.C. 20006

COMPANY CONTACT: James V. Clark TELEPHONE NUMBER: 296-2621

2. TYPE OF ORGANIZATION *(CHECK ONE)*: ☐ Individual ☐ Partnership ☐ Other *(Specify)*

☒ Corporation { Date of Incorporation Jan. 8, 1979 / Incorporated in State of Washington, D.C.

Year Firm Established 1975

3. TYPE OF BUSINESS *(Check Applicable Box(es))*:
☐ Manufacturer or Producer ☐ Concession ☒ Consulting ☐ Service
☐ Construction ☐ Sales ☐ Other *(Specify)*

4. SIZE OF BUSINESS: (a) Average No. of Employees for last 4 Calendar Quarters: 23

(b) Floor Space (Sq. Ft.): Mfg. _____; Warehouse _____; Office 1200

5. IDENTIFY SPECIAL CAPABILITIES *(i.e. Manufacturing Specialties, Consulting Expertise, Breakdown of ADP Capabilities)*:

1. Design of custom workshops and seminars
2. Review and evaluating training needs and programs
3. Conducts seminars, workshops and training programs
4. Marketing and marketing research
5. Computer software/hardware sales, service and leases

6. IDENTIFY: (a) Equipment on Hand; (b) New Equipment Required:

Standard office equipment on hand, no new equipment needed

7. CONTRACTS HELD WITH FEDERAL GOVERNMENT DURING PAST 3 YEARS *(List Separately)*

Procuring Agency	Description of Items (Include FSN where applicable)	$ Value
SEE ATTACHED		

8. LIST ITEMS OR SERVICES FOR WHICH FIRM NOW SEEKS COMMERCIAL MARKETS:

1. Educational Technology
2. Focus Group Interviews
3. Design and development of Managerial Training Programs
4. Computer Software/Hardware sales, service leasing

SBA FORM 1017 (2-72) REF: SOP 6042

OVER

9. COMPANY FISCAL YEAR: Jan. 79 (Month, Date) To Dec. 79 (Month, Date)

(a) Total Sales for Preceding Three Fiscal Years: SEE ATTACHED STATEMENT.

FY 197 5 $ 84,000.00 ; FY 197 7 $ 102,000.00 ; FY 197 8 $ 203,947.00 ;

(b) Total Sales for Current Fiscal Year to Date: $ 172,000.00

10. BUSINESS PLAN PROJECTION *(By Federal Fiscal Years)*:

	1980 197 ___	1981 197 ___	197 ___	197 ___
8(a) Projected Support	$ 250,000	$ 187,500	$	$
Non-8(a) Sales	$ 650,000	$ 750,000	$	$
TOTAL	$ 850,000	$ 1,237,500	$	$

11. LIST 8(a) REQUIREMENTS NEEDED FOR CURRENT FEDERAL FISCAL YEAR OR NEXT FEDERAL FISCAL YEAR: 197 ___: *(For Manufacturing Firms ONLY)*

FEDERAL STOCK CLASS (4-Digit Number)	CLASS CATEGORY	DOLLAR VOLUME REQUIRED
		$
		$
		$
		$
		$
		TOTAL $

12. NATIONAL BUY SUPPORT REQUESTED: ☒ Yes ☐ No

13. INDUSTRY SUPPORT REQUESTED: ☒ Yes ☐ No

14. ENCLOSURE (S) (Check): ☒ Descriptive Literature ☒ Brochure ☐ Photographs ☐ Catalog

15. CONTINUATION OF PREVIOUS ITEMS *(include item number)*/REMARKS:

(For additional plans access if necessary)

Prepared By:	Date:	SBA Region No.

SBA FORM 40 (5-12-72) PAGE 2

JAMES V. CLARK AND ASSOCIATES

Completed Federal Contracts

AGENCY	PROGRAM	CONTACT OFFICER AND TELEPHONE NUMBER
DEPT. OF STATE	COPING WITH STRESS	Mr. Jim Dandridge 703/235-9428
DEPT. OF ENERGY	INTRO. TO ADP	Mr. James Baker 301/353-4594
USDA/APHIS	PERS. ASSESS. & DEV. SEQUENCE	Mr. Ron Gurley 447-4937
DEPT. OF ENERGY	MANAGEMENT OF TIME	Mr. James Baker 301/353-4594
NASA	ADV. EEO COUNSELING	Mr. Earl Ginyard 755-3604
SMALL BUS. ADMIN.	ASSESSMENT/COPING WITH STRESS	Ms. Bonnie Jackson 301/427-7254
NAVAL AIR STATION	TECH. REPORT WRITING	Mr. Ted. White 301/863-3734
WASHINGTON NAVY YARD	COUNS. FOR COUNSELORS/SUPERVISORS	Ms. Barbara Davis 443-3188
VETERANS ADMINISTRATION	VIDEO PRODUCTION/MOTIVATION	Mr. James Yancey DU9-2474
INTER. STATE. COMM.	ZERO BASE BUDGETING	Mr. Sam Bingman 275-7876
FT. GEORGE. G. MEADE	EXEC. MANAGEMENT INSTITUTE I & II	Mr. Goodrich Brame 301/677-5206
EPA	INTERPERSONAL DYMANICS	Ms. Mary McCarthy 245-3062
USDA/MPI	BLACK FED. EXECS: INTRINSIC REALITIES	Dr. Victor Berry 447-3697
VETERANS ADMIN.	TECH. RPT. WRIT. FOR ADP PROFESSIONALS	Mr. James Edwards DU9-2138
ARMY-FACILITIES ENG.	ENGINEERS MANAGEMENT INSTITUTE	Mr. Mike Flannery 301/677-6141
USDA/FSQS	ADV. SUPER. FOR INCUMBENT SUPERVISORS	Ms. Lois G. Bennou 447-5530
AID/STATE DEPT.	VIDEO SUPPRT SER./PERS. MANAGEMENT	Ms. Carlyn Pitts 703/ 235-9082
USDA/FSQS	ASSESSMENT CENTER PROGRAM	Mr. Ron Gurley 447-4937
FHA/USDA	MANAGEMENT OF CHANGE	Mr. Albert Greatorex 447-3315
USDA/FSQS	COUNS. COMP. FOR EXECUTIVES	Ms. Lois G. Bennou 447-5530
CUSTOMS ACADEMY	GROUP FACIL. FOR TRAINERS	Mr. Charles Orsi 634-5250
DEPT. OF LABOR	CETA/SUPERVISORS	Mr. John Wheal 376-6448
USDA/MPI	ZERO BASE BUDGETING	Mr. L. G. Skufe 447-5261
USDA/OSDBU	WORKSHOP/VIDEO TAPE PRODUCTION ENHANCING UTIL. OF P.L. 95-507	Mr. Preston Davis 472-1994
NASA/EDWARDS, CALIF.	OTPIMIZING HUMAN RESOURCES	Ms. Florence Kailiwai 805/258-3311
USDA/FSQS	FOCUS GRP. INTERVIEWS: USDA's COMMODITY GRADING PROGRAM	Mr. Wayne Batwin 447-7803
USDA/FSQS	TELEPHONE SURVEY ON USDA's COMMODITY GRADING PROGRAM	Mr. John McCutcheon 447-6525
USDA/OEQ	"MODEL" AFFIRMATIVE ACTION PROGRAM	Mr. Barry Flamm 447-3965

U.S. SMALL BUSINESS ADMINISTRATION,
Washington, D.C., May 28, 1981.

Dr. JAMES V. CLARK,
James V. Clark & Associates,
Washington, D.C.

DEAR MR. CLARK: Your request to expand the capabilities of your firm to include ADP and other related services has been declined.

The declined was based primarily on the fact, that the Small Business Administration has determined adequate contract support for your firm in this field is not available, at this time.

If we can be of further assistance, please advise.

Sincerely,

FREDDIE M. COLLINS, *District Director.*

JAMES V. CLARK & ASSOCIATES, INC.,
Washington, D.C., August 11, 1981.

Mr. FREDDIE M. COLLINS,
District Director, U.S. Small Business Administration,
Washington, D.C.

DEAR MR. COLLINS: I hereby appeal the declination of James V. Clark and Associates, Inc.'s request for authorization to amend our present development plan to include diversification into the computer sciences—lease and rental, repair and maintenance, of computer hardware and software, with emphasis being placed on our forte, namely, custom designated Management Information Systems, and User Training programs.

JVCA's current Development Plan is grossly inadequate. To date, after four years of participation in the 8(a) program the most that our firm has grossed in a given fiscal year is less than $250,000; notwithstanding, a vigorous introductory and marketing program which entailed almost 900 scheduled visits with Federal and Corporate decision makers with budgets. If JVCA is confined to its existing Development Plan, it is quite obvious that our "almost successful" firm will not achieve its annual goal of at least $1 million gross.

Please note that James V. Clark and Associates, after being authorized to diversify into the computer sciences will bring "value added" components to any and all of our Federal contracts through the inclusion of the following: a.) User Training and Management Information Systems; b.) Hardware Conversions; c.) Systems Enhancement. As in all of our past 65 Federal and private sector contracts, JVCA Inc. will be substantially involved in any ADP procurement and or contract, not merely as a broker type.

Your letter of May 28, Mr. Collins, indicated a concern for the availability of Federal markets for the services of JVCA, Inc.—given the 50 or more 8(a) firms presently in the ADP area, with a concentration in Region 3. In response to this marketing concern I am enclosing 2 letters of "interest" from Federal procurement officers (USDA and DOC) indicating their willingness to consider JVCA Inc. for ADP services. Also, given the pending "graduation" of 8(a) firms, JVCA, Inc. can fill the market vacuum.

As an almost successful, SBA "SOP" responsive and conforming 8(a) firm, I would welcome your support in our two year effort to obtain authorization to diversify into the computer science field.

Sincerely,

JAMES V. CLARK, *President.*

U.S. DEPARTMENT OF AGRICULTURE,
Washington, D.C., July 22, 1981.

FREDDIE M. COLLINS,
District Director, Washington District Office,
Small Business Administration, Washington, D.C.

DEAR MR. COLLINS: The U.S. Department of Agriculture procures many ADP hardware services and maintenance. A large portion of these procurements are available for set asides in the 8(a) program. To date there have been few firms to choose from to accomplish our tasks. Therefore, most of our 8(a) projects are awarded to a small number of firms.

James Clark and Associates, Inc. has capabilities in providing services and hardware which the Department of Agriculture can utilize. In fiscal year 1981 we will be awarding approximately $1.5 million under the program. We anticipate we will equal or exceed that amount in fiscal year 1982.

Sincerely,

CLEMENT F. MUNNO,
Chief, ADP Contracts Team.

U.S. DEPARTMENT OF COMMERCE,
Washington, D.C., June 30, 1981.

Mr. FREDDIE M. COLLINS,
District Director, Small Business Administration,
Washington, D.C.

DEAR MR. COLLINS: I am writing you at the request of James V. Clarke of Clarke Associates to inform you that we would use his firm as an 8(a) contractor in the ADP area if it were proposed for award by a Department of Commerce user organization and if SBA approved the 8(a) award.

This assumes that Mr. Clarke would obtain the needed staff resources in ADP to satisfy a user of his capability to competently perform the work required by the contract. We have had a satisfactory experience with Mr. Clarke's firm in performance of a contract related to training.

This Department awards close to $100 million worth of ADP contracts each year, millions of which are awarded to 8(a) firms.

Sincerely,

DAVID LARKIN,
Chief, ADP and Systems Division.

U.S. SMALL BUSINESS ADMINISTRATION,
Washington, D.C., August 11, 1981.

Dr. JAMES V. CLARK,
James V. Clark & Associates, Inc.,
Washington, D.C.

DEAR DR. CLARK: This correspondence acknowledges your letter dated July 4, 1981, appealing the declination of James V. Clark and Associates, Inc.'s request for authorization to amend your present business plan to include computer hardware, computer sciences, repair and maintenance and leases and rentals.

The Washington District Office is in the process of reviewing your appeal according to the Rules and Regulations set forth in the Small Business Administration's standard operating procedures. Accordingly, your appeal will be evaluated and a recommendation will be forwarded to our Review and Evaluation Committee. This recommendation will be accompanied by a specific and detailed report of our findings and documentations which would fully justify a prompt decision by our Regional and National Offices.

For further information concerning your appeal, contact your Business Development Specialist, or John W. Lowe on 653-6968.

Sincerely,

FREDDIE M. COLLINS, *District Director.*

JAMES V. CLARK & ASSOCIATES, INC.,
Washington, D.C., May 28, 1982.

Re: Request for the revision of business development plan to include computer hardware and software.

Dr. ROBERT WRIGHT,
Associate Administrator, U.S. Small Business Administration,
Washington, D.C.

DEAR DR. WRIGHT: Dr. Wright, per your suggestion of May 25, I hereby submit in writing JVCA's request for your assistance in gaining authorization to amend our Firm's present Business Development Plan to include the marketing of previously used computer hardware—lease, rental, repair, and maintenance (SIC Code 7379)—and computer software (SIC Code 7392). (See appendixes—letter to Mr. Collins).

(a) The results of JVCA's extensive marketing research on the potential behavioral sciences markets, in both the private and public sectors, clearly suggests (1) the

lack of funds for contract volume, and (2) a fragmented and volatile management training decision-making processes.

(b) Our marketing research further indicates that there is a need for our proposed computer services, in both the private and public sectors. Letters from the Department of Commerce and the Department of Agriculture, supporting our marketing research findings are included in the Appendixes.

(c) The limitations imposed by JVCA's present Business Plan grossly limits our Firm's competitive ability. Your "file" on JVCA, clearly documents the adverse limitations of our present Business Plan. Our marketing research strongly suggests the need to diversify into the computer sciences, if JVCA expects to develop the competitive capability that is needed to achieve our $4.5 million—plus, contract goals.

(d) I emphasize that we are, herein, not referring to "broker" type computer services. We are proposing substantial "value added" services. The Firm's distinguished record of performance abundantly substantiates our position.

(e) For the purpose of documenting the high level of Management Information system expertise, and sophistication, which JVCA is currently offering, please find enclosed a copy of a technical proposal to provide vehicle reporting and training support services for the design, development, implementation, and validation of a comprehensive motor vehicle tracking information system for the government of the District of Columbia (see exhibit I).

(f) Please note, this request and appeal for a revised Business Development Plan has been pending for almost three (3) years. We would certainly welcome a favorable determination of this request.

Respectfully yours,

JAMES V. CLARK, *President.*

JAMES V. CLARK & ASSOCIATES, INC.,
Washington, D.C., May 28, 1982.

Re (A) Requested changes in SIC code to include 7379 and 7392 and (B) an increased level of SBA support.

DEAR MR. LAYNE: As it is abundantly reflected in my Firm's SBA file, since July, 1979, I have repeatedly requested—this represents my third effort—a change in my Firm's Business Development Plan, to include SIC Code 7392 and 7379: marketing previously used computer hardware—lease, rental, repair, maintenance—and computer programing. As is documented, already, in the Firm's SBA file, these requested changes in my Business Development Plan would substantially increase the viability of JVCA's business position. Such would also permit my Firm to diversify into a significant, high volume market.

The level of SBA approved support is not consistent with my Firm's FPPT negotiations. Please, $150,000.00 for fiscal year 1982 is miniscule and, indeed, ridiculous. I hereby request a $4.5 million SBA level of support. In support of this request please find an updated form 1017.

Thank you in advance for your positive consideration.

Sincerely,

JAMES V. CLARK, *President.*

CAPABILITY REVIEW AND REQUIREMENTS REQUEST / / INITIAL SUBMISSION

/X/ REVISION

To: AA/MSB&COD
WASHINGTON, D.C. 20415

DATE 5/25/82

1. APPLICANT'S NAME AND ADDRESS (Include County and ZIP Code)
James V. Clark & Assoc., Inc.
10680 Rain Dream Hill, Columbia, MD 21044
COMPANY CONTACT: James V. Clark
TELEPHONE NUMBER: (301) 596-6609

2. TYPE OF ORGANIZATION (CHECK ONE): / / Individual / / Partnership / / Other
/X/ Corporation Years In Business 8 yrs.

3. TYPE OF BUSINESS (Check Applicable Box(es):
/ / Manufacturer or Producer /X/ Professional Service / / Non-Professional Service
/ / Construction / / Wholesale/Retail Trade / / Other (Specify)

4. SIZE OF BUSINESS: (a) Number of Employees 8
(b) Floor Space (Sq. Ft.): MFG. _____ : Warehouse _____ : Office 2400

CATEGORY:

/X/ Small Disadvantaged Business / / Women Owned Business

/X/ SBA 8(a) Approval, Date 4/25/77

/X/ Fixed Program Participation Expiration Date 4/21/86

5. CONTRACTS HELD WITH FEDERAL GOVERNMENT DURING PAST 3 YEARS (List separately-Use an attachment if more space is needed)

Procuring Agency	Product Service Code	Description	$ Value

SEE ATTACHMENT

6. LIST ITEMS OR SERVICES FOR WHICH FIRM NOW SEEKS COMMERCIAL MARKETS:

SEE ATTACHMENT

7. SALES:

a. Company Fiscal Year Jan. 1 (Month, Date) to Dec. 31 (Month, Date)

b. Sales By Company Fiscal Year (Last 3 Years)

	1979	1980	1981
8(a) Sales	$ 91,938	$188,390	$ 82,703
Non-8(a) Government Sales	$ 65,062	$ 26,210	$ 15,721
Commerical Sales	$ None	$ None	$ None
Total	$ 157,000	$215,000	$ 98,424

(c) Additional financial information available for private industry upon request? /X/ Yes / / No

8. BUSINESS PLAN PROJECTION (By Federal Fiscal Year):

	1983	1984	1985	1986
8(a) Contracts	$750,000	$600,000	$400,000	$300,000
Non-8(a) Government Contracts	$200,000	$3,200,000	4,000,000	4,700,000
Commercial Contracts	$400,000	$600,000	$800,000	$1,000,000
Total	$1,350,000	4,400,000	5,200,000	6,000,000

9. LIST 8(a) REQUIREMENTS NEEDED FOR CURRENT FEDERAL FISCAL YEAR OR NEXT FEDERAL FISCAL YEAR: 1982

Federal Product Service Code	Description	DOLLAR VOLUME REQUIRED
7379/7392	Previously used computer and computer software	$1,000,000
		$
		$
		$
		$
		$

10. Attach a listing of (a) Equipment on Hand (b) Equipment Needed
SEE ATTACHMENT

11. Is a written Quality Control Procedures Manual available and maintained for use by all Inspection Personnel? /X/ Yes / / No

12. Is your tool and gage calibration system traceable to the National Bureau of Standards? / / Yes / / No N/A

13. Quality Control System in accordance with: ____ MIL-Q-9858 ____ MIL-C-45662A ____ MIL-Q-9858A ____ NAS200 ____ MIL-I-45208A

14. NATIONAL BUY 8(a) SUPPORT REQUESTED: /X/ Yes / / No

15. INDUSTRY SUPPORT REQUESTED: /X/ Yes / / No

16. ENCLOSURE(S) (CHECK): / / Descriptive Literature /X/ Brochure

/ / Photographs / / Organizational Chart / / Catalog

17. Union Affiliation /X/ None / / Yes, with ____

Do you have procedures for controlling, identifying, protecting Government furnished property? /X/ Yes / / No

19. List names of anticipated Government customer agencies and contracting officers, program officials or small business specialists and their telephone numbers where your supplies or services can be sold. (Attach a separate list if more space is needed)

SEE ATTACHMENT

Prepared by: DATE: BDS SIGNATURE DATE SBA REGION

Question #10.
Part A

Question #5.

	Contract Amount	Description of Project	Location (City,State)	Month Year Started	Month Year Comp.	Profit or Loss
1.	$76,518	Focus Group Interviews	Wash.,DC	2/78	12/78	Profit
2.	$38,600	Assessment & Stress Seminar	Sil.Spring, MD	4/78	6/78	Profit
3.	$45,000	Performance Appraisal Manual	Wash., DC	4/80	11/80	Profit
4.	$49,980	Management of Stress	Rosslyn, VA	3/79	9/79	Profit
5.	$52,000	Configuration Management	Indian Head, MD	4/80	4/82	Profit

Question #6.

(a) Custom designed executive & mid-level management developmental training; (b) Visual aids - Industrial films, Video tapes, Audio/slides; (c) Design & produce training manuals; (d) Computer hardware rental & leasing, maintenance & repairs; (e) Computer software; (f) Focus group interviews; (g) Telephone surveys; (h) Research & development

Question #10.
Part A.

Quantity	Description	Age	Condition	Original Cost	Leased/Owned
1	Apple III Computer	1 yr.	excellent	$20,000.00	X
1	Selectric II IBM Typewriter	7 yrs.	good	$ 2,000.00	X
1	IBM MEMORY-100 Typewriter	4 yrs.	good	$ 5,800.00	X
1	Manual Royal Typewriter	10 yrs.	fair	$ 300.00	X
2	Desk calculators	3 yrs.	good	$ 200.00	X
4	Hand calculators	3 yrs.	good	$ 250.00	X
2	IBM Dictaphone & Transcribers	2 yrs.	good	$ 400.00	X
8	File Cabinets	2 yrs.	exc-fair	$ 2,000.00	X
5	Desks & 10 Chairs	7 yrs.	good	$ 5,000.00	X
1	Xerox Copier	4 yrs.	good	$ 5,000.00	X

Part B. Equipment Needed

3 IBM Computers	$100,000.00
2 Desk Calculators	$ 500.00
Kodak Copier or equivalent	$ 50,000.00

Question #19.

DOT/IRS Alvin Weiss 376-0012

HHS Frank Broden 245-0481

State Dept. Alvin Bernstein 1-703-235-9525

Customs/DOT Marv Williams 566-8333

DOT/OS George Menedith 376-0921

FAA/DOT Bill Bailey 426-3153

PREPARED STATEMENT OF LAWYER A. MARTIN, BEFORE THE PRESIDENT'S ADVISORY COMMITTEE ON SMALL AND MINORITY BUSINESS OWNERSHIP

Mr. Chairman, my name is Lawyer A. Martin, President of Evaluation Technologies Inc., an Arlington, Virginia-based professional and technical services firm specializing in computer software support services; facilities management; training and training materials development; and information support services.

I am here today in my capacity as treasurer of the Black Presidents' Roundtable (BPR). The Black Presidents' Roundtable is an organization of the presidents of over two hundred firms in the greater Metropolitan Washington area. Our companies are diverse in nature with capabilities that include professional services, manufacturing, retail, architecture and engineering, financial management, communications, research and development, construction, and public affairs.

The Black Presidents' Roundtable welcomes this opportunity to share with the advisory committee its views on several areas of SBA responsibility which impact its minority business clientele. These views are among a number of policy recommendations concerning minority business development which BPRA has communicated previously to the executive branch and agencies of the Federal Government.

Mr. Chairman, minority business and trade associations across the country are deeply interested in your committee's efforts to make the Small Business Administration more responsive to the needs of the small business and minority small business sectors of our economy.

We agree with your objectives of decreasing the dependence of minority business on disproportionately high levels of Federal contract support and we also agree with your objective of increasing minority business development and growth through partnership with the private sector. However, we are certain that your objectives will not be achieved without constructively critical assessment of the role of the Small Business Administration in fostering the development and growth of minority business. We trust that the following areas of concern and accompanying recommendations will be accepted in that light and will facilitate your consideration of the SBA mission as it undergoes a change in leadership.

1. Slowness in clearing agency offerings and financial assistance through the national office of SBA: An historically important incentive for procurement officials to utilize the 8(a) program has been the comparative quickness in obtaining contractors to perform on the requirements of their agencies. This is because agency offerings for performance by 8(a) concerns can be finalized more quickly than formally advertised requirements. During the past year, there has been a marked increase in the time required for agencies to clear their offerings and for 8(a) concerns to clear requests for financial assistance through the Small Business Administration. This has resulted in a disincentive for agency utilization of 8(a) concerns. This has also seriously damaged the development of these concerns through loss of contracts and in many cases such delay has resulted in costly loss of time in the achievement of agency missions.

We are aware that as recently as April 28, 1982, the new SBA Director, James C. Sanders, announced new rules governing the 8(a) program which, if effectively implemented by regional and district SBA offices, should remedy this concern.

2. More creative and effective utilization of the 7j provisions: It is universally agreed that technical assistance is the key element in the development of business enterprise. The 7j program of the Small Business Administration was legislated to provide technical assistance to small businesses and assist them in the acquisition of equipment vital to the performance of their contracts with agencies of the Federal Government. It is our view that the SBA has not been creative enough with its utilization of the contractors it engages to provide 7j assistance. An innovation that the SBA should consider is the utilization of 7j contractors as an extension of the SBA staff. This would enable the SBA to, in effect, get a bigger bang for its bucks and increase the quality and effectiveness of its management of the 8(a) portfolio. Additionally, we feel that the SBA should place greater emphasis on the use of its contractors for providing marketing assistance within Federal agencies on behalf of its minority business clientele. Further, the approval for acquisition of equipment through the business development expense (BDE) program element of 7j has, in the past, often been delayed by requirement for clearance by the national office. The recent action of Mr. Sanders should remedy this problem also.

3. More effective administration and coordination of sub-contracting requirements: During the past year we have observed a significant increase in the number of Federal prime contractors that have been found to be in some manner of noncompliance with legislated requirements for submission of plans for utilization of minority small business contractors. In view of the emphasis of the administration

and the SBA on decreased dependence of minority businesses on Federal contracts we feel such sub-contracting opportunity is clearly consistent with this objective. The opportunity for a minority concern to sub-contract with a prime is seen as a vital first step in decreasing that concern's dependence on Federal requirements and facilitates its transition to performance within the private sector. It has also been demonstrated that prime contractors experience savings as high as 38 percent through the use of small business sub-contractors. The requirements of public law, the incentive of savings to the Government, and increased minority business partnership with the private sector, are three compelling reasons for more effective administration of the sub-contracting program. As an important step we recommend that the SBA implement procedures for effective coordination between its minority business development program and the sub-contracting office of the Agency.

4. Development and effective utilization of management information systems: A serious deterrent to the administration and cost effective management of SBA programs has been the lack of adequately structured management information systems (MIS). This is especially true with regard to programs designed to foster minority business development. The lack of adequate MIS capability makes it virtually impossible to determine what point 8(a) concerns have reached in the implementation of their business development plans, without the time consuming and costly manual review of agency files. The lack of adequate MIS capability also reduces the SBA's ability to quickly match offerings with qualified portfolio firms, thus contributing to the slowness in meeting the procurement requirements of Federal agencies. We also note that improved MIS capability would greatly increase the SBA's effectiveness by maintaining a data base on prime contract awards for use in quickly matching prime contractors with potential minority sub-contractors. We are aware that the SBA has made some efforts to utilize MIS on a limited basis. However, SBA's MIS capability must be developed to a much higher level of sophistication. The relatively minor cost of such MIS development is far outweighed by the ultimate savings in SBA's administrative costs and increased effectiveness in management decisions and services to its small business clientele.

We trust that our observations and recommendations will be helpful to your continued efforts to strengthen the role of minority business enterprise in the revitalization of the Nation's economy.

Benefits of Minority Business Enterprise to the U.S. Economy

OVERVIEW

Continued and expanded Federal support for minority business enterprises (MBEs) will result in tangible benefits for the nation as a whole. These benefits are:

Employment;
Federal, State and local tax revenues;
Sources of investment capital;
Technological innovation and improvement;
Support for development and expansion of non-minority business sectors;
Fostering international trade relations;
Delivery of social and voluntary services;
Community support for self-sufficiency and "self-help"; and
Human capital development.

Federal MBE support programs, in particular the 8(a) and P.L. 95–507 programs, were initiated to counter the distorting effect on the marketplace of systemic discrimination. Such discrimination has continued to severely restrict MBE opportunities for growth and maturation. Thus, the need for these programs persists.

Policies for the 8(a) program recently promulgated by the Small Business Administration will limit the development of new MBE's and will have a devastating impact on those 8(a) certified firms that are moving toward maturity.

Support of MBEs by the Reagan administration is consistent with the principles of "supply-side" economics and will return quantifiable benefits to the economy. An unequivocal policy statement from the President supporting existing MBE Federal programs is urgently needed now, however, if these benefits are to be realized.

MINORITY ENTREPRENEURS AS EMPLOYERS

A 1979 study of small businesses confirmed the importance of small firms in developing new jobs. Two-thirds of the total employment growth of 5.6 million firms (representing 82 percent of private sector employment) came from small businesses.

Minority businesses represent an important sector of the small business community. Using the most recent census data available, analysts in the Department of Commerce have estimated that minority-owned businesses provide jobs to an estimated 1,081,095 persons.

This exceeds the total employment of the 19 largest U.S. oil companies;

It more than doubles the combined employment of the six largest U.S. steel manufacturers;

It is 80 percent greater than the total employment of the Ford Motor Company, Chrysler Corporation, and American Motors; and

It exceeds the conbined work forces of ITT, IBM, Boeing, and Rockwell International.

A survey conducted in early 1981 among firms in the Washington metropolitan area, among which 8(a) firms are heavily represented, indicates employment among these MBEs greatly exceeds national averages. Estimated employment for the 250 firms represented by the sample shows a total of 14,234 employees. Many of these employees in professional, technical, and managerial categories would not find comparable positions in either the public or non-minority private sector if their jobs were terminated.

Employment among minority-owned enterprises has expanded as rapidly as in the non-minority sector.

Between the 1972 and 1977 census, total employment by minority entrepreneurs grew by a compound annual rate of 3.89 percent;

The comparable growth rate for all private nonagricultural employment was 3.83 percent; and

Between 1977 and 1980 the number of jobs provided by minority-owned firms grew by an estimated 4.20 percent, which equalled the national average.

During the 1980's the importance of minority-owned businesses as employers will likely increase.

The Bureau of Labor Statistics (BLS) projects slower employment growth in the goods producing sectors through 1990;

However, BLS also projects that employment demand in those retail non-goods producing areas in which minority-owned firms are concentrated will increase by as much as 8 percent; and

During the decade of the 1980s, total employment in the goods producing sector is projected to grow by 5 to 7 million persons, compared to about 20 million in the non-goods producing industries.

The contributions of MBEs as employers are made even more clear when the impact of these firms on unemployment is assessed. In 1980, an estimated 3.15 million persons were unemployed each week. If unemployment benefits of $100 per week were paid to these persons, $315 million a week would be required. The collapse of MBEs could represent an additional outlay of $100 million in Federal unemployment benefits, since persons employed by MBEs would not have easily jobs in either the public or private sectors in 1980, a recession year. Put another way, the continued survival of MBEs in 1980 could have saved the Federal Government $100 million a week or $5.2 billion for the year.

The implications of these data and projections are clear. Minority entrepreneurs will have to employ at expanded levels to offset weak and declining labor demand in the goods producing and public service sectors severly impacted by reductions in Federal spending.

FEDERAL, STATE AND LOCAL TAX REVENUES

A study of estimated Federal income tax payments made in 1977 indicated that $2 billion had been recovered by the Federal government and another $500 million had been paid in State, local, import, and excise taxes. (See Table attached.) Federal, State and local taxes paid by Washington metropolitan area firms alone were estimated at over $93 million in 1981, a figure which represents a substantial contribution to the national and area economies.

SOURCES OF INVESTMENT CAPITAL

The U.S. Chamber of Commerce estimated in 1975 that every 100 new jobs created generated $481,000 in additional bank deposits. A comparable estimate for 1981 is $736,410. Using these figures, MBE employment in 1980 generated an estimated total bank deposits of nearly $8 billion. If this sum was deposited in checking accounts only, the receiving banks could have leveraged loans in excess of $72 billion. This sum would have been more than adequate to finance the $72 billion in crude oil imported into the United States in 1980.

TECHNOLOGICAL INNOVATION AND IMPROVEMENT

The contributions of minority inventors and scientists to the nation's technological superiority over the centuries is little known but documented. Elijah McCoy, Lewis Latimer, and Granville T. Woods for example, patented major improvements in the railroad and electrical industries. Garret A. Morgan invented both the gas mask and the traffic light in the early 20th century.

The role of the small business sector, including minority small business, in technological innovation is more widely acknowledged. The National Science Foundation has found that between 1953 and 1973, small firms produced about four times as many innovations per research and development firms as medium-sized firms, and about 24 times as many as large firms.

Although minority participation in growth industries is still minimal, that which has occurred, according to a study conducted by the National Business League, is the direct result of minority inventiveness and creativity, i.e., the ability to "build a better mousetrap."

Robert C. Forney, Senior Vice President, E.I. du Pont de Nemours and Company, Inc., recently commented on the strong "we try harder" spirit among minority vendors with which his corporation does business. He noted that MBEs often compensate for what they may lack in the way of financial resources "with energetic attacks on bottlenecks."

SUPPORT FOR DEVELOPMENT AND EXPANSION OF NON-MINORITY BUSINESS SECTORS

Minority business enterprises are integrally tied into the national economy. They must of necessity turn to non-minority vendors for many of the goods and services that are required to sustain their operations.

For example, it is estimated that 250 Washington area firms recently sampled spend nearly $25 million per year on space, nearly $4 million on copy/duplicating machine rental, and over $5.25 million on telephone costs.

As important, as MBEs develop and accumulate assets, they have demonstrated an interest and capability to diversify and commit resources to involvement in other business sectors. In the Washington metropolitan area, several cases can be cited of professional service consulting firms which have gained experience and business acumen through participation in the 8(a) program and which have become involved in community development projects as joint venture partners and investors.

Success of the Urban Enterprise Zone concept will depend on the availability of such partners in development, particularly in those cities where minorities predominate and are in political leadership positions.

FOSTERING INTERNATIONAL TRADE RELATIONSHIPS

The U.S. trade deficit with Nigeria is $13 billion, representing the value of Nigerian oil. Yet at the same time, American skills and technology are being sought by African countries for development. Many of these and other Third World nations have specifically expressed interest in doing business with MBEs.

Support for the increased involvement of MBEs in international trade will not only affect the balance of trade but will aid in establishing cooperative relationships with the suppliers of much needed raw materials. However, MBEs must be able to achieve a level of stability and sophistication that will enable them to pursue international market with success.

COMMUNITY SUPPORT FOR SELF-SUFFICIENCY AND SELF-HELP

Since the emergence of Booker T. Washington on the national scene in the late 19th century, there has been a strong undercurrent of support for economic self-sufficiency and self-help in the black community. There has been a resurgence of that spirit with the development of visible minority business entitles in the late 1960's and 1970's. An indication is the growing numbers of minority students in business administration courses and increasing numbers of firms seeking entry to the 8(a) program. However, the decline and/or disappearance of those businesses that have participated in the 8(a) and other minority support programs could result in a deeper sense of dependency and apathy in minority communities than currently exists. For there will be no convincing evidence that self-help in economic enterprise really works.

DELIVERY OF SOCIAL AND VOLUNTARY SERVICES

Jackie Robinson credited a neighborhood black businessman's interest and intervention for his rescue from the life of delinquency. The story could be repeated countless tin.es. Minority entrepreneurs hire youth, advise students to go into business, support human rights and social service organizations, sponsor issue-oriented conferences, support recreation programs, and contribute to and manage political campaigns.

Cuts in public spending and the shift toward limited government places greater responsibility for social welfare programs on the private sector. If at the same time government decreases support for minority business enterprise, there will be fewer organizations within minority communities to pick up the slack.

HUMAN CAPITAL DEVELOPMENT

Milton and Rose Friedman in "Free to Choose" have aptly described the importance of this benefit.

"In countries like the United States the major productive resource is personal productive capacity—what economists call "human capital". . . . The accumulation of physical capital . . . has played an essential role in economic growth. . . . But the accumulation of human capital—in the form of increased knowledge and skills and improved health and longevity—has also played an essential role. . . . Both physical and human capital must be cared for and replaced. This is even more difficult and costly for human than for physical capital—a major reason why the return to human capital has risen so much more rapidly than the return to physical capital."

Human capital development is probably the least recognized contribution to the national economy made by minority business enterprises. The benefit is not solely to be understood in terms of numbers, although it is clear that the substantial majority of persons employed by MBEs are minorities and that small businesses are more labor intensive than large corporations.

The critical issue is the quality of the employment experience. Entrepreneurs start their businesses with themselves, and initially hire persons closest to them, i.e., other minorities. These persons are generally not experienced and would not be able to enter large corporations or Governmental agencies in comparable positions. As the company grows—from the entrepreneurial stage to the manager state—these employees grow with the company, thus gaining developmental experiences they would not be able to access otherwise. As important, they are able to gain such experiences despite the lack of credentials and formal evidence of capability (e.g. test scores) required by major corporations or public sector organizations for employment.

These individuals in turn, having acquired such managerial and program experience, make substantial contributions to their communities—as church leaders, charity fund-raisers, political representatives and the like. In the case of MBEs, such contributions are overwhelmingly made to the minority communities from which the entrepreneurs come.

THE HARMFUL IMPACT OF SBA'S 8(a) POLICIES

The nine benefits of minority business enterprises listed above represent assets to the national economy of incalculable value.

Policies recently promulgated by newly appointed SBA Administrator Michael Cardenas would have a devastating effect upon the ability of firms currently in the 8(a) program to generate these benefits. Major problems are:

1. SBA would terminate the participation of the largest 8(a) firms: The 8(a) program was developed in recognition of the role that racial discrimination plays in interfering with market forces. A Republican Administration developed the program to compensate for this bias, which has not lessened to this day.

Firms operating with this "safety net" in place were then able to self-market with some assurances that they would not be denied a reasonable chance for success. Those entering the program in the earliest days have only recently begun to experience breakthroughs. Thus, despite large contract dollar volumes, they have only recently experienced noticeable profitability.

Termination is arbitrary and unfair if based on cumulative contract dollar volume, without respect to the firm's comparative position relative to other small businesses, and in its own industry, or without assessing chances for success once the "safety net" has been removed. Imposition of such a blanket policy without respect to individual circumstances will mean ruin for many. It will also eliminate

any prospect of significant participation of such firms in community development ventures, in the international marketplace, in growth industries or in the private sector mainstream.

2. SBA would limit participation in the 8(a) program to 3-5 years: Such a policy flies in the face of substantial evidence accumulated by SBA itself that most firms do not approach maturity until they have been in existence 15 to 20 years. Most firms only begin to move from the entrepreneurial to the managerial stage of growth in 3 to 5 years. Few can show significant profits before the 5-year mark. Certainly the development of human capital required for mainstream participation is not accomplished in this timeframe.

As important, Federal agencies will not be willing to entrust major long-term projects to SBA for the 8(a) program if the firms best qualified to implement them are no longer available. This would result in 8(a) subcontracts for minor projects with no development potential. This policy will also cause the demise of some of the program's most respected firms. Private sector opportunities are simply not available for them, particularly in the absence of enforcement of P.L. 95-507. Moreover, there has been no major change in the biases of evaluation panels which operate against minority firms when non-8(a) contracts are at stake. Thus, it is unlikely that these firms can maintain their current contract volume if they are removed from the 8(a) program.

There are alternatives for the management of the 8(a) program that would greatly limit the services SBA would have to provide to firms in the program over 3 years. These must be explored if the program is to remain credible and if the stated benefits to minority communities are to be realized. Arbitrary time limitations established to make the 8(a) program a "revolving door" program for entreprenurial orientation will not achieve the purpose of strengthening minority communities or the national economy.

3. SBA is penalizing 8(a) firms for its own management failures: In June 1981, 8(a) firms were advised by SBA that pending requirements and/or contracts earmarked for them could not be processed and approved because SBA had not yet met the Congressionally-mandated requirement that SBA negotiate with each firm by June 1 a fixed program participation term. Thus, firms were required to sign a statement which had the potential of depriving them of due process, a statement which is being challenged.

Firms have also been advised that 8(a) requirements and/or contracts cannot be approved because data submitted to one part of SBA (e.g., District Offices) had not been communicated to another part of the organization (e.g., Regional Offices). 8(a) contracts have also been withheld by Federal agencies because of the delays caused by SBA procedures and/or the inability of SBA to process more 8(a) contracts, including contracts which the 8(a) firms have marketed with no SBA assistance.

As a result of these events, 8(a) contracts anticipated to be awarded by the end of the third quarter (June 30, 1981) may be lost to the program forever. In addition, restrictions on the dollar volume of contracts let in the fourth quarter may affect the availability of 8(a) contracts to be let by September 30, 1981.

In short, 8(a) firms will lose business critical to their survival because of the inability of SBA to manage its work in an effective, efficient and timely manner.

THE NEED FOR A STATEMENT FROM THE PRESIDENT

The decline and disappearance of minority business enterprises is not in the national interest. However, the actions of SBA coupled with persistent reporting of the negative aspects of the 8(a) and other minority support programs suggest that such an outcome is intended. A statement from the President of the United States is urgently needed to reverse this trend, to continue support for MBE development and maturation, and to realize the substantial benefits that can accrue to the nation if minority entrepreneurs are viewed as important participants in the national economy.

Such a statement should include at a minimum:

1. Support for the continuation and expansion of the 8(a) program as an important vehicle for the involvement of MBEs in Federal contracting activities.

2. Commitment to enforce P.L. 95-507 as a means to foster majority/minority business arrangements within the private sector.

3. Recognition of the benefits to the national economy contributed by MBEs.

4. Insistence that SBA be held accountable for its contribution to the development and success of MBEs participating in its programs and will be expected to revamp its operations to achieve that end.

5. The Administration welcomes the participation of MBEs in the development of the Urban Enterprise Zone program and other initiatives designed to facilitate the nation's economic recovery.

ESTIMATED TAX PAYMENTS OF ALL MINORITY-OWNED BUSINESS ENTERPRISES

BY INDUSTRY AND TYPE OF TAX

IN 1977 DOLLARS

(Amounts in Thousands of Dollars)

Industry Group	Gross Receipts of All MBEs[1/]	Est. Fed. Income Tax Rate[2/]	Est. Fed. Income Tax Payments[3/]	Est. State Local, Import & Excise Tax Rate[4/]	Est. Payments of State, Local, Import & Excise Taxes[5/]	Est. Total Tax Payments By MBEs[6/]
Agriculture, Forestry & Fisheries	_____	10.66	_____	3.04	_____	_____
Mining	_____	33.76	_____	3.55	_____	_____
Construction	2,360,764	3.51	82,863	1.90	44,855	127,718
Manufacturing	1,959,424	5.77	113,059	2.14	41,932	154,991
Transportation and Utilities	1,060,422	4.35	46,128	3.61	38,281	84,409
Wholesale Trade	2,030,700	3.00	60,921	0.90	18,276	79,197
Retail Trade	10,629,378	2.85	302,937	1.96	208,336	511,273
Finance, Insurance and Real Estate	1,333,639	18.77	250,324	2.37	31,607	281,931
Services	6,201,552	16.79	1,041,241	2.21	137,054	1,178,295
Industries not Classified	458,100	21.67	99,270	_____	_____	99,270
TOTAL TAX PAYMENTS (Estimated)			1,996,743		520,341	2,517,084

1/ Bureau of the Census, 1977 Survey of Minority-Owned Business Enterprises

2/ Based upon Table I which is in turn based upon the tax record of sole proprietorships. This form of business organization accounts for about 75 percent of all MBEs.

3/ Gross receipts times estimated Federal income tax rate.

4/ Dun & Bradstreet, The Cost of Doing Business: Proprietorships, 1977. Based on Gross Receipts.

5/ Gross receipts times estimate consolidated tax rate for state, local, import and excise taxes.

6/ Sum of estimate Federal income taxes paid plus estimated state, local, import and excise tax payment.

NOTE: 1977 is the latest year for which complete data is available.

Mr. MITCHELL. Thank you.

It is depressing. I agree with you as I continue to serve in this Congress. One of the causes that I have just devoted my entire congressional career to is in jeopardy and it is painful to see a retreat on the part of the Federal Government with regard to the minority business enterprise program. It is painful.

I think I have to be honest with you. We have few friends in the Congress. Not even all the members of this full House Small Business Committee are supportive of the Federal efforts on behalf of minority business enterprise. But we are not going to go down. I don't care what it takes. We are going to turn this retreat around and get back on track.

Every day I am annoyed by the smear stories that appear about minority businesses. They fail. Yes, they fail. Yet, you have an increase of 40 percent in the bankruptcy rate for all small businesses.

Fraud and waste: Of course there is fraud and waste but there is also a $2 billion cost overrun when the Army ordered its cargo planes a few years ago.

Mismanagement: Of course there is mismanagement, not endemic but there is some. They want to close the programs down but nobody has suggested closing down the Naval Shipyard at San Diego, which came up with an 80-percent cost overrun for each vessel that it has constructed.

I am angry. I am certainly not going to be beaten. I don't know what it will take to turn it around but whatever it takes we are going to do it.

I want to just get even closer to the Presidents' Roundtable. I think we need to be totally united in order to preserve what we have done up to this point. You are an expert. There is no question about it. Your track record reveals it and other administrations have called upon you for advice and counsel and for your input into policymaking. Does that same condition obtain? Does the SBA or MBDA now call upon you for some input in terms of policy or policymaking?

Mr. LITTLEJOHN. Mr. Chairman, we are called upon as a Roundtable from time to time to engage in dialog with this administration. We are not convinced, however, that we are always listened to.

Mr. MITCHELL. Well, that is fairly obvious.

Mr. LITTLEJOHN. We are consulted frequently after the fact and we are frequently in a firefighting situation. Situations have developed where we have to rush as many troops as we can into the fray in order to maintain our current position.

Mr. MITCHELL. I don't want to put you on the spot.

Mr. LITTLEJOHN. I don't mind being on the spot, Mr. Chairman.

Mr. MITCHELL. I am not quite sure how to phrase this. In past administrations, under Mr. Nixon, Mr. Ford, Mr. Carter and others, we, in the minority business community, have always been able to identify one or two people in the administration who are sympathetic to our needs and to whom we could go. We had access to them and they would listen and act on our recommendations. Who are the people that you have identified in this present administration to whom you can go?

If that is putting you on the spot, don't answer it.

Mr. LITTLEJOHN. It is not. We have not as yet been able to identify any single individual in this administration to whom we can go to make sure that our cause is heard and that the situation will be taken care of.

However, there are several individuals in this administration, in the White House, who have some role to play in minority business development.

Some of our dialog with this administration has been to the effect that someone needs to emerge or someone needs to be appointed to whom we can go and who will be high enough in the hierarchy of this administration to be listened to there. That is a problem. It is a continuing problem and I think until that is resolved, issues with which we are concerned will not be heard as clearly as they should be in the highest echelons of this administration.

Mr. MITCHELL. Thank you.

I thank both of you gentlemen.

Let me just say in conclusion that I am stubborn and I will be darned if I will see the efforts of the last 12 years go down the tube. What it will take to change that I don't know, but I tell you right now whatever it takes, I am prepared to give it if I can.

Mr. LITTLEJOHN. Let me say to you, Mr. Chairman, on behalf of the Roundtable, and I am sure on behalf of the other persons who have appeared before you today, we deeply appreciate your concern and involvement with issues concerning minority business over the years. We know that you will continue to fight and we wish to pledge ourselves to support you and your activities in any way that we possibly can. You can count on us in that regard.

Mr. MITCHELL. Thank you.

I thank all the witnesses for participating. You have been very patient and gracious.

Now I would suggest that you not go to the congressional dining room in the Capitol to eat. The food is much better in any one of the cafeterias in the Rayburn, or Longworth Office Buildings. I would recommend that you utilize those.

Thank you very much. The hearing is now adjourned.

[Whereupon, at 1:50 p.m., the subcommittee adjourned, to reconvene subject to call of the Chair.]

97-829 O - 82 - 11

Additional Submissions of Dr. Robert L. Wright, Jr., Associate Administrator for Minority Development, SBA

STANDARD OPERATING PROCEDURES

SMALL BUSINESS ADMINISTRATION
STANDARD OPERATING PROCEDURE
NATIONAL

SUBJECT:	S.O.P.		REV
	SECTION	NO.	
MINORITY SMALL BUSINESS AND CAPITAL OWNERSHIP DEVELOPMENT PROGRAM	80	05	C

INTRODUCTION

1. Purpose. To establish policies procedures requirements and guidelines for the Minority Small Business and Capital Ownership Development Program.

2. Personnel Concerned. All Central Office and field personnel covered by this SOP.

3. Page changes.

Remove	Insert
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7-8	7-8
19-62	19-62.5
	307-340

4. Distribution. Standard

5. Originator. Associate Administrator for Minority Small Business and Capital Ownership Development.

AUTHORIZED BY		EFFECTIVE DATE
JAMES C. SANDERS		6-16-82
ADMINISTRATOR		PAGE 1

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* CHAPTER 2 *

ELIGIBILITY

5. GENERAL

To be eligible for participation in the 8(a) program, an individual or concern must meet all of the pertinent eligibility criteria set forth in Public Law 95-507, Public Law 96-481 and the Code of Federal Regulations Title 13, Part 124.1.

6. INDIVIDUAL ELIGIBILITY REQUIREMENTS

To be eligible for participation in the 8(a) program, an individual must be a citizen of the United States and determined to be socially and economically disadvantaged.

a. Social Disadvantage

13 C.F.R. 124.1-1(c)(3)(i) defines social disadvantage as follows:

"Socially disadvantaged individuals are those who have been subjected to racial or ethnic prejudice or cultural bias because of their identity as a member of a group without regard to their individual qualities. The social disadvantage of individuals must stem from circumstances beyond their control."

(1) Members of Designated Groups

(a) 13 C.F.R 124.1-1(c)(3)(ii) states as follows:

"In the absence of evidence to the contrary, the following individuals are considered socially disadvantaged: Black Americans, Hispanic Americans, Native Americans (American Indians, Eskimos, Aleuts, or Native Hawaiians), Asian Pacific Americans (persons with origins from Japan, China, the Phillippines, Vietnam, Korea, Samoa, Guam, U.S. Trust Territory of the Pacific Islands, Northern Mariana Islands, Laos, Cambodia or Taiwan); and members of other groups designated from time to time by SBA according to the procedures set forth at 13 C.F.R. 124.1-1(c)(3)(iv).."

(b) SBA may refute a claim of social disadvantage by a designated group member only on the basis of substantial evidence and documentation that such individual has not experienced or has overcome traditonal discriminatory and historical social attitudes, racial prejudice and sterotyping which has caused many members of such groups to experience serious and enduring impediments to obtaining equal access to financing, markets and resources necessary to establish, maintain or expand a small business concern.

(2) Individuals Not Members of Designated Groups

13 C.F.R. 124.1-1(c)(3)(iii) states as follows:

"Individuals who are not members of the above-named groups must establish their social disadvantage on the basis of clear and convincing evidence. A clear and convincing case of social disadvantage must include the following elements:

(A) The individual's social disadvantage must stem from his or her color; national origin; gender; physical handicap; long term resident in an environment isolated from the mainstream of American society; or other similar cause not common to small business persons who are not socially disadvantaged.

(B) The individual must demonstrate that he or she has personally suffered social disadvantage, not merely claim membership in a non-designated group which could be considered socially disadvantaged.

(C) The individual's social disadvantage must be rooted in treatment which he or she has experienced in American society, not in other countries.

(D) The individual's social disadvantage must be chronic, long-standing, and substantial, not fleeting or insignificant.

(E) The individual's social disadvantage must have negatively impacted on his or her entry into, and/or advancement in, the business world. SBA will entertain any relevant evidence in assessing this element of an applicant's case. SBA will particularly consider and place emphasis on the following experiences of the individual, where relevant: education, employment, and business history.

(1) Education. SBA shall consider, as evidence of an individual's social disadvantage, denial of equal access to business or professional schools; denial of equal access to curricula; exclusion from social and professional association with students and teachers; denial of educational honors; social patterns or pressures which have discouraged the individual from pursuing a professional or business education; and other similar factors.

(2) Employment. SBA shall consider, as evidence of an individual's social disadvantage, discrimination in hiring; discrimination in promotions and other aspects of professional advancement; discrimination in pay and fringe benefits; discrimination in other terms and conditions of employment; retaliatory behavior by an employer; social patterns or pressures which have channelled the individual into non-professional or non-business fields; and other similar factors.

(3) Business History. SBA shall consider as evidence of an individual's social disadvantage, unequal access to credit or capital; acquisition of credit or capital under unfavorable circumstances, discrimination in receipt (award and/or bid) of government contracts; discrimination by potential clients; exclusion from business or professional organizations; and other similar factors which have retarded the individual's business development."

(3) Minority Group Inclusion

Applications for minority group inclusion from minority groups other than those designated in paragraph 6a(1) above must be submitted in accordance with 13 C.F.R. 124.1(c)(3)(iv).

b. Economic Disadvantage

13 C.F.R. 124.1-1(c)(4) defines economic disadvantage as follows:

"(i) Economically disadvantaged individuals are socially disadvantaged individuals whose ability to compete in the free enterprise system has been impaired due to diminished capital and credit opportunities, as compared to others in the same line of business and competitive market area who are not socially disadvantaged.

(ii) In determining the degree of diminished credit and capital opportunities of a socially disadvantaged individual, consideration shall be given:

(A) with respect to both the disadvantaged individual and the applicant concern with which he or she is affiliated, to the following factors, including but not limited to:

(1) Personal and business assets;

(2) Personal and business net worth; and

(3) Personal and business income and profits.

(B) with respect to the applicant concern, the following factors, including but not limited to:

(1) Availability of financing;

(2) Bonding capability;

(3) Availability of outside equity capital; and

(4) Available markets."

(1) In determining the individual's personal financial resources the equity contained in a primary residence shall be included when analyzing SBA Form 413, "Personal Financial Statement."

(2) A comparison shall be made of the 8(a) applicant's business and financial profile with profiles of non-disadvantaged individuals in the same or similar line of business and competitive market area.

(3) In general, it is not the intent of the 8(a) program to allow participation by socially disadvantaged individuals who have accumulated substantial wealth, have unlimited growth potential and have not experienced or have

overcome impediments to obtaining equal access to financing, markets and resources and who can provide for themselves the types of assistance available through the 8(a) program. It is also not the intent of the 8(a) program to exclude participation by socially disadvantaged individuals who, while they may have achieved moderate financial success, still are unable to compete and grow on equal terms in the marketplace because traditional cultural, racial or social barriers are preventing access to usual sources of financing, markets, or other resources.

c. Good Character

(1) Good character is an eligibility requirement. Determinations of character shall be made in accordance with the provisions of SOP 90 20, "Investigations Program."

(2) When the field office is in the possession of adverse information submitted by the applicant, no further direct action shall be taken on the application. Rather, in accordance with the provisions of SOP 90 20, the information shall be submitted to the Director, Office of the Inspector General (IG). After investigation, the Office of the Inspector General will give notice to the field office regarding further processing. The case will not be forwarded to the AA/MSB&COD until a final IG decision is received.

d. Education

Admission shall not be denied to an 8(a) applicant because the applicant has managed to acquire a quality education. Indeed such education may demonstrate the individual's serious intent to excel and may be an important asset in developing a viable business.

e. Individual Eligibility Limitations

(1) Except as noted herein, a person's eligibility may be used only once in qualifying a firm for 8(a) participation. There may be compelling reasons to justify re-entry into the program when:

(a) The concern voluntarily withdrew from the program because of the health of the disadvantaged owner.

(b) The eligible person(s) was terminated from the 8(a) program due to SBA failure to provide contract support.

(c) The eligible person(s) was terminated or otherwise removed from participating in the 8(a) program due to SBA failure to process FPPT documents in a timely fashion.

(2) One or More 8(a) Firms in One Household

Immediate family members living in the same household may not use their individual eligibilities to qualify for more than one concern at the same time.

(3) Standard of Conduct

All situations coming under the purview of the SBA Standard of Conduct Regulations, will be processed pursuant to Parts 105 of the Standards of Conduct Regulations.

7. ELIGIBILITY CRITERIA FOR BUSINESS CONCERNS

In order to be eligible to participate in the 8(a) program, an applicant concern must be a small business which is at least 51% owned, controlled and daily managed by an individual or individuals determined to be socially and economically disadvantaged.

a. Small Business Concern

13 C.F.R. 124.1-1(c)(1) states as follows:

"In order to be eligible to participate in the 8(a) program, an applicant concern must qualify as a small business concern as defined for purposes of Government procurement in Section 121.3-8 of the SBA Rules and Regulations. The particular size standard to be applied shall be based on the principal business activity of the applicant concern."

b. Ownership

(1) Corporation

13 C.F.R. 124.1-1(c)(2)(i)(A) states as follows:

"In the case of an applicant concern which is a corporation, 51 percent of all classes of voting stock of such corporation must be owned by an individual(s) determined to be socially and economically disadvantaged."

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(2) Partnership

13 C.F.R. 124.1-1(c)(2)(i)(B) states as follows:

"In the case of an applicant concern which is a partnership, 51 percent of the partnership interest must be owned by an individual or individuals determined to be socially and economically disadvantaged..."

(3) Investment Corporations

13 C.F.R. 124.1-1(c)(2)(iii) states as follows:

"State local, and Community Development Corporations, MESBIC's and SBIC's, profit or nonprofit, may own up to 49 percent interest or voting stock in an applicant concern....

In determining the 'ownership and control' of a business, within the meaning of these regulations, the potential ownership interests of state, local and Community Development Corporations, SBIC's and MESBIC's, such as warrants, voting trust interests and other arrangements, shall not be counted until and unless exercised by the subject entity."

(4) Ownership by Non-Disadvantaged Individuals

Part ownership in an 8(a) concern by non-disadvantaged individuals is permitted and may be necessary to insure adequate capital for the concern's development, provided that non-disadvantaged individuals, their spouses or immediate family members may not:

(a) Be former employers of the disadvantaged owners;

(b) Be affiliated or associated with another business operating in the same or similar type of business;

(c) Be stockholders or owners in any other 8(a) concern;

(d) Exercise negative control;

(e) Receive excessive compensation for personal services as directors or employees;

(f) Sell, rent, or donate property, equipment, supplies, services, and/or financial assistance to the concern other than personal services as directors or employees.

(5) Ownership by Concerns in the Same Line of Business

Concerns in the same or similar line of business are prohibited from having any ownership in an 8(a) applicant.

(6) Change of Ownership

Eligibility of 8(a) concerns is based upon the individual eligibility of the persons upon whom eligibility was based and own stock in the applicant concern when it was accepted for program participation. Continued participation of the firm under new ownership is subject to compliance with 8(a) program individual and business eligibility requirements. Program termination procedures shall be initiated where non-compliance exists.

c. Control

13 C.F.R § 124.1(c)(2)(ii) requires that an applicant concern be one,

"Whose management and daily business operations are controlled by an individual(s) determined to be socially and economically disadvantaged. Such individual(s) must be engaged in the daily management and operation of the business concern."

An applicant shall be declined if it is determined that non-disadvantaged individuals as stock holders, officers, directors, or employees in the applicant concern exercise actual control over the operations of the business concern. By way of example, non-disadvantaged individuals may (on a case by case basis) be found to control or have the power to control in any one of the following circumstances:

(1) Non-disadvantaged individuals control the board of directors either directly through majority membership, or indirectly, if the by-laws allow non-disadvantaged individuals to block any action proposed by the disadvantaged individuals through negative control. For example, an equal number of disadvantaged and non-disadvantaged directors could create negative control.

(2) A non-disadvantaged individual, as an officer of the corporation, member of the Board of Directors, or through stock ownership, has the power to control day-to-day direction of the business affairs of the concern.

(3) The non-disadvantaged individual, provides financial or bonding support to the 8(a) concern which indirectly allows the non-disadvantaged individual to gain control or direction of the 8(a) concern.

(4) A non-disadvantaged individual exercises voting control through nominees.

(5) A non-disadvantaged individual controls the corporation or the individual disadvantaged owners through loan arrangements.

(6) Other contractual relationships exist with non-disadvantaged individuals, the terms of which would create control over the disadvantaged concern. Generally the individual(s) upon whom eligibility is based must receive compensation exceeding that of other employees.

d. Length of Time in Business

Generally, in order to be eligible to participate in the 8(a) program, an applicant concern must have been in business for two full years as evidenced by income tax returns form 1040C, form 1065, form 1120 and/or form 1120 S.

However, in extraordinary circumstances, an applicant concern which has not been in business for two full years may be eligible to participate in the 8(a) program providing all of the following conditions are met:

(1) The disadvantaged person upon whom eligibility is based has outstanding business experience, abilities, and educational background directly related to the applicant concern's primary business activity.

(2) The applicant concern is adequately capitalized by sources other than SBA.

(3) The disadvantaged person(s) upon whom eligibility is based has demonstrated management skills.

(4) The applicant concern's existence as a business entity cannot be contingent upon acceptance into the 8(a) program.

e. Management

(1) In the case of a proprietorship, the concern must be owned, controlled and managed on a day-to-day full-time basis, by the eligible disadvantaged person(s).

(2) Where the ownership of the stock of a corporation is held by many disadvantaged persons, one or more of the disadvantaged owners upon whom eligibility is based must be engaged full-time in the day-to-day business operations and management of the concern, must be the chief executive officer of the firm and must possess the requisite management capability to control the business operation on a day-to-day basis. This precludes outside employment and other business interests which conflict with the management of the firm or prevents it from achieving the objectives of the business development plan. Other business interests must be shown not to be in conflict with the development of the 8(a) concern. Precautions must be taken to document and assure that ownership and control rest solely with the disadvantaged individual.

(3) A determination shall be made by the business development specialist (BDS) that the applicant currently has the ability to manage the concern applying for 8(a) assistance. The determination shall be made based on the interviews, review of personal resumes and independent verifications, and if necessary, of the applicant's education, skills and past experience. SBA Form 1180 "Summary Management Rating System" shall be used in making an evaluation of the applicant.

(4) While it is not required that the applicant have experience in all functional aspects of the concern's operations, the applicant should have acquired or demonstrated pertinent technical or administrative skills. If it is determined that the applicant's management or

technical skills are inadequate and cannot reasonably be expected to be remedied by SBA or through other assistance, the applicant shall not be accepted for 8(a) program participation.

f. Manufacturer

Manufacturers are eligible for 8(a) program participation provided they meet the following definition of a manufacturer:

A manufacturer is a person who owns, operates, or maintains a factory or establishment that produces on the premises the materials, supplies, articles, of equipment described by the business plan. In order to qualify as a manufacturer, a concern must be able to show (a) that he is an established manufacturer of particular goods or goods of general character which may be sought by the Government, or (b) if he is newly entering into such manufacturing activity, that he has made all necessary prior arrangements for space, equipment, and personnel to perform manufacturing operations. A new firm which has made such definite commitments in order to enter a manufacturing business which will later qualify it, shall not be barred from 8(a) approval because it has not yet done any manufacturing; however, this interpretation is not intended to qualify a firm whose arrangements to use space, equipment, or personnel are contingent upon 8(a) approval.

This definition is based upon the Walsh-Healy Act. However, an eligibility determination for program participation purposes made pursuant to such definitions does not preclude compliance with Walsh Healy Act requirements prior to an 8(a) contract award. (See Chapter 8)

g. Regular Dealer-General

These definitions are based on the Walsh Healy Act. However, an eligibility determination made for program participation purposes pursuant to such definitions does not preclude compliance with Walsh Healy Act requirements prior to an 8(a) contract award. (See Chapter 8). Dealers are eligible for 8(a) program participation provided they meet the following definitions of a Regular Dealer:

(1) A regular dealer is a person who owns, operates, or maintains a store, warehouse, or other establishment in which materials, supplies, articles, or equipment of the

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general character described in the business plan are bought for the account of such person, kept in stock and sold to the public in the usual course of business. In order to qualify as a regular dealer, the concern must be able to show:

(a) That he has an establishment or leased or assigned space in which he regularly maintains a stock of goods in which he claims to be a dealer; if the space is in a public warehouse, it must be maintained on a continuing, and not on a demand basis:,

(b) That the stock maintained is a true inventory from which sales are made; the requirement is not satisfied by a stock of sample of display goods, or by a stock consisting of surplus goods remaining from prior orders, or by a stock unrelated to the supplies which are the subject of the business plan, or by a stock maintained primarily for the purpose of token compliance with the Act from which few, if any sales are made:

(c) That the goods stocked are of the same general character as the goods in which he claims to be a dealer; to be of the same general character the items to be supplied must be either identical with those in stock or be goods for which dealers in the same line of business would be an obvious source:

(d) That sales are made regularly from stock a recurring basis; they cannot be only occasional and constitute an exception to the usual operations of the business; the proportion of sales from stock that will satisfy the requirements will depend upon the character of the business;

(e) That sales are made regularly in the usual course of business to the public, i.e., to purchasers other than Federal, State, or local government agenies; this requirements is not satified if the applicant concern merely seeks to sell to the public but has not yet made such sales; if government agencies are the sole

purchasers, the applicant concern will not qualify as a regular dealer; the number and amount of sales which must be made to the public will necessarily vary with the amount of total sales and the nature of the business; and

(f) That his business is an established and going concern; it is not sufficient to show that arrangements have been made to set up such a business."

(2) For certain specific products, there are additional alternative definitions of regular dealers, as follows:

(a) A regular dealer in lumber and timber products, if a wholesale lumber dealer, may be a person who owns, operates, or maintains a place of business in which the materials, supplies, articles, or equipment of the general character described by the business plan are bought for the account of such person and sold to the public in the usual course of business: Provided, that at least more than 50 percent of his business is such purchase and sale of such materials, supplies, articles, or equipment; and provided further, that upon all orders to manufacturers for direct shipment to the United States he agrees to insert a notice to the manufacturer to the effect that the supplies are purchased for the United States and that the manufacturer is within the terms of [41 C.F.R.] § 50-201.104 requiring compliance with the provisions of the Public Contracts Act.

(b) A machine tool dealer may be a person possessing, through contract or agreement with a manufacturer, the responsibility for selling that manufacturer's products, with respect to a specific territory and who is authorized by such manufacturer to offer its products and to negotiate and conclude contracts for the furnishing thereof. Provided, that upon all orders to manufacturers for direct shipment to the United States he agrees to insert a notice to the manufacturer to the effect that the supplies are purchased for the United States and that the manufacturer is within the terms of [41 C.F.R.] § 50-201.104 requiring compliance with the provisions of the Public Contracts Act.

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(c) A regular dealer in hay, grain, feed, or straw may be a person who owns, operates, or maintains a store, warehouse, or other place of business in which the materials, supplies, articles, or equipment of the general character described by the business plan are bought for the account of such person and sold to the public in the usual course of business, and whose principal business in such purchase and sale of such materials, supplies, articles, or equipment.

(d) A regular dealer in raw cotton may be a person who owns, operates or maintains a store, warehouse, or other place of business in which materials, supplies, articles or equipment of the general character described by the business plan are bought for the account of such person and sold to the public in the usual course of business.

(e) A regular dealer in green coffee may be a person who owns, operates or maintains a store, warehouse, or other place of business in which materials, supplies, articles or equipment of the general character described by the business plan are bought for the account of such person and sold to the public in the usual course of business.

(f) A regular dealer in petroleum may be a person who owns, operates, or maintains petroleum distribution equipment and a store, warehouse, or other place of business in which petroleum products of the general character described by the business plan are bought for the account of such person and sold to the public in the usual course of business, and whose principal business is such purchase and sale of such petroleum products.

(g) A regular dealer in agricultural liming materials may be a person who owns or controls the necessary equipment customarily required for delivering agricultural liming materials to farms or for spreading such materials on field, who has made arrangements to purchase liming materials of the general character described by the business plan from a manufacturer, and who offers such materials for sale to the public in the usual course of business.

(h) A regular dealer in tea may be an importer who owns, operates, or maintains a store, warehouse, or other place of business in which materials, supplies, articles or equipment of the general character described by the business plan are bought for the account of such person and sold to the public in the usual course of business.

(i) A regular dealer in raw or unmanufactured cotton linters may be a person who owns, operates or maintains a store, warehouse, or other place of business in which materials, supplies, articles, or equipment of the general character described by the business plan are bought for the account of such person and sold to the public in the usual course of business, and whose principal business is such purchase and sale of such materials, supplies, articles, or equipment.

(j) A regular dealer in used automatic data processing equipment may be a person who owns or controls previously owned or used items, materials, supplies, articles, or equipment of the general character described in the business plan and who offers such items for sale to the public in the usual course of business and whose principal business is the purchase and sale of such items and materials.

(3) Coal Dealer

A coal dealer may be a person who regularly buys and sells coal on his own account in lots of not less than a cargo or railroad carload, or a person who is authorized by one or more persons engaged in mining coal to negotiate and conclude contracts for the furnishing thereof in such lots; Provided however, that the concern pledges to comply with the following terms and provisions as a condition of continued program participation:

(a) That such person will notify the persons engaged in mining the coal that the purchaser thereof is the United States and that provisions of the Public Contracts Act are applicable; and,

(b) That such person, apart from the liability of the mines, shall be liable for the observance in the mines of all applicable labor standards; and,

(c) That such person notify the contracting agency that he will accept the contract upon the terms and conditions set forth above.

If the above terms and provisions are not met, coal dealers must meet the requirements set forth for regular dealers at Chapter 2 paragraph 7f of this SOP.

h. Assemblers

Assemblers may be eligible to participate in the 8(a) program provided they utilize their own industry, facilities, equipment and personnel to:

(1) Change the quality or form of the product.

(2) Perform specialized packaging services for multiple commercial customers on a recurring and/or contract basis in the usual course of business.

i. Indian Tribes and Alaskan Native Corporations

(Reserved)

j. Concessions

(Reserved)

8. INELIGIBLE BUSINESSES

a. Brokers

Brokers are ineligible for 8(a) program participation.

b. Packagers

Packagers are ineligible for 8(a) program participation.

c. Debarred or Suspended Person or Concern

Person and concerns which have been debarred or suspended from eligibility for award of government contracts or subcontracts, by the Director of the Office of Federal Contract Compliance or any other agency of the Government, pursuant to DAR Part 6

"Debarment, Ineligibility and Suspension" or FPR Subpart 1-1.6 "Debarred, Ineligible Bidders" shall not be eligible for admission into the 8(a) program during the period of such debarment or suspension. Prior to recommending approval or declining applications, the AA/MSB&COD shall ascertain that the applicant is not currently debarred, suspended or otherwise ineligible.

9. POTENTIAL FOR SUCCESS

a. 13 C.F.R § 124.1-1(c)(5) states as follows:

"In order to be eligible to participate in the section 8(a) program, an applicant concern must be a concern:

(i) Which with contract, financial, technical and management support, will be able to successfully perform subcontracts awarded under the section 8(a) program, and with such assistance shall have reasonable prospects for success in competing in the private sector.

(ii) In addition to meeting the criteria set forth in paragraph (c)(5)(i) of this section, the AAMSB-COD must determine that the procurement, financial, technical and management support necessary to enable the applicant concern to successfully complete the section 8(a) program shall be available to such concern from SBA or other identified and acceptable sources."

b. Even though an applicant concern meets all of the eligibility criteria established in this chapter, the AA/MSB&COD has the authority to decline an otherwise eligible concern based on the lack of SBA resources to serve the applicant concern. Before making such determination, there must be a written statement that SBA resources, particularly personnel, are inadequate or unavailable to serve the applicant concern.

c. It is the responsibility of the district director, or his designee, to insure that each applicant concern's eligibility application is accompanied by a written analysis demonstrating the availability of adequate SBA personnel and program support for the concern.

10. FIXED PROGRAM PARTICIPATION TERM

Every program participant shall be subject to a Fixed Program Participation Term in Compliance with Public Law 96-481 and the Code of Federal Regulations, Title 13, Part 124.1-1(f). The final rule, as promulgated on November 23, 1981, states as follows:

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"(1) In addition to Program Completion and Program Termination, set forth in subsections (d) and (e) of this section, every program participant shall be subject to a Fixed Program Participation Term. A Fixed Program Participation Term will establish the ultimate time period during which a concern may remain in the program and the conditions thereof, regardless of whether competitiveness is reached or Program Completion action is effected. Except as noted in this section, a concern may not be accepted or continue in the program without a Fixed Program Participation Term.

(2) This Fixed Program Participation Term shall be negotiated between SBA and each small concern which is a participant or has applied for participation in the program.

(3) The provisions of the Fixed Program Participation Term, including the time limitation therefore, shall be set forth in the SBA approved business plan of the program participant....

For concerns applying for entry into the program..., the Fixed Program Term shall begin on the date of award of the concern's first § 8(a) subcontract....

(4) The maximum Fixed Program Participation Term for all concerns shall be five years. These maximum terms shall apply both to concerns applying for entry into the program and to concerns currently in the program, applying for a revision of their business plan to incorporate a Fixed Program Participation Term as required by these regulations.

(i) Not less than one year prior to the expiration of the Fixed Program Participation Term, a concern may request SBA to review and extend its Fixed Program Participation Term for a period not to exceed the difference between the Fixed Program Participation Term established in the business plan and the maximum Fixed Program Participation Term authorized herein, plus two years. There may be no further extensions. [See Chapter 11]...

(5) The criteria that SBA will use in negotiating a Fixed Program Participation Term or an extension thereof with... applicant program participants are as follows:

(i) The factors referenced in § 124.1-1(c)(4) of this regulation for determining economic disadvantage.

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(ii) The number and dollar amount, and the progressively decreasing importance, of § 8(a) contract support that it is anticipated will be necessary to achieve competitiveness. In order to maximize limited program resources, SBA will emphasize business plans anticipating lesser amounts of §8(a) contract support for reach competitiveness....

(iii) The number and dollar amount and the progressively increasing importance of contract support, other than § 8(a) contract support, that it is anticipated will be necessary to achieve competitiveness. SBA will emphasize business plans having greater reliance on this non-section 8(a) contract support to reach competitiveness....

(iv) The length of time that it is anticipated will be necessary to achieve competitiveness. In order to maximize limited program resources, SBA will emphasize program participation for those concerns closer to competitiveness....

(v) The degree to which it is anticipated that Advance Payments and Business Development Expense will be necessary to enable the concern to successfully complete § 8(a) contracts and the extent to which reliance upon such proceeds will progressively decrease in importance. In order to maximize limited SBA resources and to increase exposure to regular competitive procedures, SBA will emphasize maximum use of conventional governmental and private resources in performing such contracts....

(vi) The rate at which it is anticipated that a concern will decrease its reliance upon all forms of program support, especially § 8(a) contract support, in reaching competitiveness at the end of the Fixed Program Participation Term....

(6) No contracts pursuant to 8(a) of the Small Business Act shall be awarded to any concern unless it has received and is operating under an SBA approved Fixed Program Participation Term.

(7) Nothing in this subsection (f) shall be construed to limit SBA from initiating Termination actions, pursuant to subsection (e) above, or Completion actions, pursuant to subsection (d) above, during any Fixed Program Participation Term granted herein.

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(8) Upon the conclusion of the Fixed Program Participation Term granted and/or extended herein, a concern will cease to be a program participant. This cessation of program participation shall occur without the necessity of any additional action by SBA; also it shall not give rise to any rights, claims or prerogatives on behalf of the concern. Cessation of program participation at the conclusion of the Fixed Program Participation Term shall not be subject to the hearings or other requirements of § 8(a) (9) of the Small Business Act (15 U.S.C. 637(a)(9)) or any implementing rules or regulations."

* CHAPTER 3 *

APPLICATION PROCESSING

11. INQUIRIES AND INTERVIEWS

a. General

It is the policy of the Agency to render all assistance practicable to existing or prospective small businesses. The SBA interviewer shall evaluate the inquirer's problem and offer constructive advice, whether it be through the 8(a) program, or other SBA assistance; some other Federal or State agency, private sources or a combination of the preceding. This requires familiarity with all SBA programs as well as those of procuring and other government agencies. If management or financial assistance is indicated, the inquirer should be directed to the suitable division and introduced to the appropriate management assistant officer or loan officer. If our legislative authority or policy requirements preclude SBA assistance, the inquirer should be told clearly, promptly and diplomatically so that the inquirer leaves with a full understanding that although the Agency cannot be of assistance, it is keenly and sincerely interested in the problem(s) presented.

b. Requests for Interviews

Interviews should be scheduled to preclude conflict or intrusion by others to prevent an impression of neglect or inattention to the inquirer and should take place within one week of the date of request.

c. Initial Interviews

The initial interview shall be conducted by an experienced business development specialist (BDS) or other qualified individual. The primary purpose of the initial interview is to enable the BDS to evaluate the feasibility of a prospective applicant's participation in the 8(a) program from the standpoint of eligibility, availability of 8(a) requirement support, management capability and financial and operating capacity. The interviewer should clearly explain the appropriate statutory and policy requirements and the basic philosophy of the program. In addition, the interview should cover but not be limited to the following:

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(1) Obtaining information necessary to establish basic eligibility. (If the inquirer appears eligible, a general review should be made of all application forms with an explanation of the purpose of each. If the inquirer or concern is obviously ineligible under statutory or policy requirements, the filing of an 8(a) application shall be discouraged in order to avoid unnecessary expense).

(2) Explaining all SBA management and financial assistance and outside resources available. If necessary, the inquirer should be assisted in contacting other government or private organizations.

(3) Emphasizing the requirement that prior to an 8(a) business plan being accepted, the principal of the concern shall attend an SBA prebusiness workshop and have a Management Development Plan prepared.

(4) Explaining the requirement that all present and contemplated agreements, arrangements or understandings, regardless of type, that may give an interest to any person, other than those upon whom eligibility is based, are subject to the approval of the AA/MSB&COD. These include, but are not limited to management, consultant, employment, joint venture, management training agreements, etc.

(5) Giving a thorough review of all application forms, including business plan requirements, and, if appropriate, the names of Minority Business Development Administration (MBDA) funded or other outside organizations which will assist in packaging the application. The inquirer should be informed that it is not necessary to retain representation to assist in the preparation of SBA applications.

(6) Explaining SBA's policy on representatives.

(7) Emphasizing the requirement for initial and subsequent submission of financial statements.

(8) The interviewer shall refer the inquirer to a copy of "Selling to the U.S. Government."

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(9) Discussing all requirements contained in the "Participation Agreement" contained in the business plan.

(10) Providing information on annual reviews, surveillance activities and other program conditions and requirements.

d. Request for Application Forms

SBA's policy is that any individual or business has the right to apply for 8(a) assistance, whether or not there is an appearance of eligibility.

e. Disclosure of Information

Under no circumstances shall an inquirer or applicant be informed of actions or decisions that may be taken on a formal application. Many contingent circumstances could arise affecting the ultimate decision of approval or declination. Therefore, care must be taken not to mislead an applicant during an inquiry or interview or at any time during the application process.

12. RECORDING OF INTERVIEWS

SBA Form 149

A record shall be maintained of each personal interview. The district office receptionist or other designated employee on initial visits shall complete the heading on SBA Form 149, "Loan Inquiry Record," to show the name, address, zip code, and phone number of the concern, and indicate on the form that it is an 8(a) inquiry. The visitor shall be referred to a business development specialist (BDS) and the Form 149 given to the BDS. In field offices, the MSB&COD staff shall be responsible for completing the headings on SBA Form 149 for initial interviews.

The business development specialist (region and district) shall carefully record all significant details of the interview on the SBA Form 149 including advice given to the inquirer.

The ARA/MSB&COD and ADD/MSB&COD shall review a representative sample of SBA Forms 149 on a regular basis for completeness and responsiveness.

13. FILING OF APPLICATIONS

a. Place of Filing

Applications shall be filed and approved cases serviced in the field office serving the territory where the headquarters of the applicant concern is located, and primary business or corporate records are maintained.

b. Applicants From Outside the Territory

Field offices shall render courteous assistance to prospective applicants from other districts by providing general information on the 8(a) program and direct him/her to the appropriate field office.

14. APPLICATION PROCEDURES

a. General

The application process shall be conducted in two stages: Stage I, Preliminary Requirements Support Determination (Form 1017) and Stage II, individual and business eligibility determinations (Forms 1010A, 1010B and 1010C, 1010D, 1010E or 1010I as the case may be).

b. Stage I: Preliminary Requirements Support Determination

(1) Local Buy

The regional administrator or designee is responsible for making a preliminary determination as to whether there is a reasonable likelihood of availability of local buy requirements to support the concern. For local buys, the field office, in conjunction with the inquirer, shall prepare SBA Form 1017, "Capability Review and Requirements Request" and print or type on the 1017 in item 14 that it is a local buy. The 1017 shall be signed by the inquirer and the BDS.

(2) National Buy

The AA/MSB&COD or designee is responsible for determining if there is a reasonable likelihood of availability of national buy requirements necessary to support the concern. If national buy requirements support is

required, the field office, in conjunction with the potential applicant, shall prepare SBA Form 1017 for submission to the AA/MSB&COD. A written response will be provided by the AA/MSB&COD to the field office within 7 working days regarding the availability of support.

(3) Nonavailability of Requirement Support

If local buy requirements support has been determined not to be available, documentation of this determination will be forwarded by the district to the region. If national buy support is not available, the AA/MSB&COD or designee will so inform the regional administrator in writing. In either case where requirement support is not available, the region will inform the inquirer in writing that no further action can be taken on his expressed interest in the program due to lack of availability of requirements support. A copy of the letter shall be forwarded to the district.

(4) Availability of Requirements Support

If the necessary SBA requirements support is determined to be available, the inquirer may proceed to Stage II of the application process and may submit necessary application forms as an applicant for 8(a) program assistance.

c. Stage II: Individual and Business Eligibility Determination

(1) When requirement support has been determined to be available the applicant will be requested to submit a full complete application package consisting of Forms 1010A Personal Eligibility Statement, 1010B Business Eligibility Statement, and 1010C, D, E or I, "Business Plan."

(2) Upon receipt and date stamping by the mail clerk of application forms specified in paragraph 14a, the field office shall screen the material within 10 working days to determine whether the forms are sufficiently complete to allow a thorough evaluation of all eligibility criteria.

(a) If the application material is complete, the district office shall assign it to a BDS for processing.

(b) If the application material is incomplete or is deficient in any way, the applicant shall be informed in writing, and the application returned without further processing action. A copy of the applicable

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criteria from the SOP may be sent along with the no processing letter. If a Minority Business Development Agency (MBDA) funded or outside organization assisted in the packaging, a copy of the letter should be sent to the appropriate organization.

(3) When the application is complete or when the deficiences are corrected, the entire application package will then be processed by the appropriate field office (district or region) and all application materials including comments and recommendations of the district director and regional administrator shall be forwarded to the AA/MSB&COD for a final eligibility determination. All such comments and recommendations shall be contained in Form 1010G "Determination of 8(a) Program Eligibility." Additionally, District Review and Evaluation Committee recommendations and plans of action to overcome deficiencies of the applicant concern as well as comments and recommendations by the regional administrator will be attached thereto.

(4) The AA/MSB&COD shall accept the application package or return it to the field office for modifications or additional information.

(5) The decision on eligibility shall be that of the AA/MSB&COD. He will notify the applicant in writing of the final decision and forward a copy of the letter to the region and district office.

d. Forms Required

All 8(a) applicants are required to submit the following forms and their required attachments for an eligibility determination.

(1) SBA Form 1017

This form must be completed and signed by the applicant owner, partner(s), or those designated on the form if a corporation.

(2) SBA Form 1010A, "8(a) Personal Eligibility Statement." This form must be completed by each person who is claiming social and economic disadvantage.

(3) SBA Form 1010B, "8(a) Business Eligibility Statement." This form must be completed and signed by the applicant owner, partner(s), or those designated on the form if a

corporation. The Applicant should be reminded to complete all headings and attach all required supporting documents noting "N/A" (not applicable) under those headings not applicable, as failure to complete the form may delay processing of the application.

(4) SBA Forms 1010C, D, E or I "Business Plan." These forms must be completed and signed by the applicant owner (sole proprietorship), partner(s) (partnership), or corporate president (corporation), as appropriate. The applicant must complete the business plan for the primary business activity in which the firm is engaged as follows:

1010C - Service Businesses
1010D - Manufacturing Businesses
1010E - Constructon Businesses
1010I - Retail and Wholesale Businesses

See Paragraph 16 for further details.

(5) SBA Form 413, "Personal Financial Statement." All owners, partner(s), holders of 20 percent or more of all voting stock of applicant corporation, all persons claiming social and economic disadvantage, upon whom eligibility will be based, and all officers and directors are required to file a detailed personal financial statement and copies of income tax returns for the past two years.

(6) SBA Form 912, "Statement of Personal History."

(a) General

SBA Form 912 shall be used in requesting name checks under the 8(a) program. Prior to providing the 8(a) applicant with SBA Form 912, the BDS will complete the "Amount Applied For" block with the words "8(a) Program." Each applicant must submit SBA Form 912 as follows:

(i) If a sole proprietorship, by the proprietor.

(ii) If a partnership, by each partner.

(iii) If a corporation, by each officer, director and owners of 20 percent or more voting stock of the applicant.

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(iv) Any other person, including a hired manager, who has authority to speak for and commit the concern in the management of the business.

(v) By all persons claiming social and economic disadvantaged upon whom eligibility will be based.

On all applications for 8(a) program participation, SBA Form 912 shall be submitted in triplicate. The original shall be reviewed immediately by field office personnel having authority to screen applications. If the original is not signed or if each question is not answered, the entire SBA Form 912 shall be returned to the applicant for completion. After the original is returned in proper form, the missing information shall be added to the copies, including the notation that the original was signed. The second and third copies shall be forwarded to the Director, Office of Inspector General (IG), as indicated in the lower right-hand corner of the form. The fourth, or "Bank Copy" may be retained by the applicant.

The original (No. 1) copy, initialed and dated by the person forwarding the Nos. 2 and 3 copies to IG, shall be retained in the case file. If the application is returned or declined, the original shall nevertheless be retained by the field office as evidence that a request for a name check was made.

(b) Adverse Information

After submission of SBA Form 912, the application may be processed without further advice from the Central Office, except in cases where the field office is in possession of adverse information from outside sources, i.e., credit report concerns, banks, local enforcement authorities, etc., or from information submitted by applicant concerning criminal or subversive activities. In such cases, no further action shall be taken on the application. The information developed from local sources shall be forwarded through channels to the Director, Office of Inspector General (IG). Notification of further processing of such applications shall be given by the Office of Inspector General (IG). (See SOP 90 20 "Investigations Program.") The application will not be further processed to the AA/MSB&COD pending a final decision by the IG.

(c) Disclosure of Information

Subsequent to the transmittal of SBA Form 912 to the IG, and before final Agency action, the field office will make no statement of any kind to the applicant, applicant's representative, or to anyone outside SBA, as to any action taken by the IG in regard to the information transmitted, except as required or permitted under the provisions of the Privacy Act of 1974 and SOP 40 03 "Disclosure of Information."

(7) SBA Form 370 "Representative Index

SBA Form 370 shall be completed by all individuals purporting to represent an applicant.

e. Screening of Application For Eligibility

Despite careful interviewing techniques, there will be occasions when applications are received where it appears that a concern could not be approved because of obvious personal or business ineligibility or other valid reasons such as non-citizens or applicants not meeting size standards. In these instances, the BDS shall complete the appropriate sections of SBA Form 1010G, "Determination of 8(a) Program Eligibility" being careful to document the reasons for ineligibility and forward the form and all application material to the ADD/MSB&COD. The ADD/MSB&COD will add comments and recommendations to the form and forward to the district director, who will add comments and a recommendation and forward to the regional administrator with the application and backup material. The regional administrator will append comments and a recommendation to the form and forward the entire package to the AA/MSB&COD for final decision.

f. Compensation of Applicant Representatives

(1) General

It is not necessary, but it is the option of any applicant to employ outside representatives in connection with an application for 8(a) program participation approval. 13 C.F.R. 103.13-5 states as follows:

"... the Administrator, for good cause, may suspend or revoke the privilege of any Agent or Applicant to appear before SBA. 'Good cause' as used in this connection will be deemed to mean any unlawful or unethical activity. The following acts would constitute 'good cause'; these are illustrative only and 'good cause' is not necessarily limited to the following:"....

Charging or proposing to charge for any services performed in connection with matters before SBA (as defined in § 103.13-2(c) any fee contingent upon the granting of any benefit to the applicant unless the amount of such fee bears a necessary and reasonable relationship to the services actually performed; any fee which is deemed by SBA to be unreasonable for the services actually performed; or the charging of any expenses which are not deemed by SBA to have been necessary in connection with the application. This provision will not be construed to limit the right of SBA to require the execution by any person of an agreement as to compensation for services rendered, or to be rendered, to applicants in connection with any matter before SBA, as provided for in §103.13-6.

(2) Listing of Representatives on Application Forms

(i) General

SBA Forms 1010 A, B, C, D, E and I require listings of attorneys, accountants, appraisers, agents or other representatives who assisted in the preparation, placement or filing of the 8(a) application and all fees, bonuses, commissions or expenses paid or due. The representatives must sign the form and thereby agree that the amount of payment for their services shall not exceed an amount deemed reasonable by SBA. (See SOP 70-03 "Control of Activities and Compensation of Representatives of Applicants.")

(ii) SBA Form 370, "Representative Index"

Immediately upon acceptance of an application, the MSB&COD Division shall prepare SBA Form 370 in duplicate for each representative listed. (This form can be easily adapted for 8(a) purposes by typing or printing "8(a)" across its face). The original shall

be forwarded to the Director, Office of Inspector General. The copy shall be filed alphabetically with Forms 370 maintained by the financing division. This will serve as an additional check for those individuals who also represent COC, and loan applicants.

The field offices shall note on the copies of the Form 370 any disciplinary actions or other pertinent information concerning the representatives, and ensure that no suspended or otherwise unauthorized representative appears on behalf of any applicant. Field offices shall be alert for any improper conduct on the part of representatives, and shall report any allegations or suspicions of misrepresentation or other irregularities to the Director, Office of Inspector General, if warranted.

(iii) SBA Employees to Deal Only with Authorized Representatives

Unless a representative's name is listed on either application, or the representative has a letter of authorization signed by the applicant, SBA employees shall not discuss the case with any person claiming to be a representative.

SBA Form 370, in duplicate, shall also be completed on any person purporting to represent an applicant but not listed as such on either application. The original shall be transmitted to the Director, Office of Inspector General.

15. ELIGIBILITY PROCESSING PROCEDURES

a. Eligibility Analysis

The BDS shall review and evaluate all eligibility application material submitted including the concern's latest financial statements, shall complete SBA Form 1010G, "Determination of 8(a) Program Eligibility" and shall recommend approval or decline on the form itself. The analysis of the headings on Form 1010G must clearly show the reasoning and basis for the recommendation. The BDS shall analyze the Management Development Plan prepared by the Management Assistance Division (MA) prior to making a final recommendation.

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b. Financial Analysis by BDS

(1) In conjunction with the eligibility review, the BDS shall analyze the financial data of the concern and the individuals upon whom eligibility is based, contained in the application package.

(2) The financial data shall include a copy of the concern's last two fiscal year-end balance sheets and profit and loss statements, the concern's last two fiscal year-end tax returns (Form 1040C, 1065, 1120 or 1120S) and an interim balance sheet and profit and loss statement no older than 90 days. The financial statements of the applicant concern must show the applicable date of the information given and must be signed, dated and certified as to accuracy by the proprietor, a partner or an authorized officer unless they are prepared and properly certified by an independent accountant. Questionable items in the balance sheets must be explained. Inflated asset values such as unwarranted goodwill must be qualified. The value of a personal residence should not be included as a business asset. In addition, the financial data shall include a copy of the last two year-end tax returns (Form 1040) for each disadvantaged person upon whom eligibility is based.

(3) The BDS, after completing the preliminary financial analysis, shall order a Dun and Bradstreet or other commercial credit report. The credit report along with the complete application file will then be submitted to F&I for analysis and afterwards be presented to the Review and Evaluation Committee.

c. Management Analysis

(1) Management Development Plan

The BDS shall complete and sign SBA Form 1061 "Request for Management Assistance" and forward it and a copy of the application material to the ADD/MA for preparation of a Management Development Plan (MDP) which shall become a permanent part of the 8(a) case file.

The ADD/MA is responsible for arranging a meeting with a management assistance officer (MAO), SCORE or ACE counselor and the applicant to evaluate management

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strengths and weaknesses and prepare SBA Form 933, "Management Development Plan" outlining actions necessary to overcome deficiencies. Upon completion, the BDS shall receive a copy of the Form 933.

(2) Management Development Plan Statement

The ADD/MA will make one of the following statements on the Form 933:

(a) "Based on my evaluation of the applicant, it is my opinion that there is reasonable likelihood that the applicant can successfully manage this business."

(b) "Based on my evaluation of applicant, it is my opinion that there is not a reasonable likelihood the applicant can successfully manage the applicant's business."

(c) "It is my opinion that if the applicant satisfactorily completes the following management assistance program(s), there is reasonable assurance that the applicant can successfully manage the applicant's business." The evaluation made by the management assistance division constitutes an additional opinion of the capability of the management of the 8(a) concern. The recommendation may be taken into consideration by the BDS or the review and evaluation committee. However, it should not serve as a substitute for the BDS's final review and recommendation.

d. Prebusiness Workshop

All applicants shall attend an SBA prebusiness workshop prior to receipt and processing of business plans. Concurrent with initiation of the Management Development Plan, the BDS shall prepare SBA Form 1061 for this purpose and forward it to the ADD/MA. If the workshop is not available on a timely basis, comparable counseling shall be provided. In addition, if it is determined by the district director or regional administrator that the applicant has the necessary background or extensive management experience to operate an applicant concern, this background and experience may be used as a substitute for the prebusiness workshop. In this instance, the district director or regional administrator shall document the reason for his substitution determination and sign SBA Form 1010G - "Determination of 8(a) Program Eligibility."

e. Field Visits

In situations where the applicant has an ongoing business, the BDS shall conduct the necessary number of field visits to make a meaningful eligibility analysis. Field visits should be coordinated and made with finance and investment and management assistance personnel and others to obtain an overview of the entire operation of the business concern. The BDS shall thoroughly investigate any unresolved issues concerning eligibility and/or document the strengths and weaknesses of the business to determine if the concern has a reasonable assurance of success with SBA 8(a) and other assistance. When conducting field visits to an applicant concern, criteria outlined under "Field Visits" in Chapter 4, "Business Development Function" shall serve as a guideline.

16. BUSINESS PLAN PROCESSING

a. FIELD OFFICE

(1) Business Plan Definition

The business plan (BP) is a comprehensive planning document which clearly describes the business development objectives of the applicant concern and what, how, and where the resources to foster or expand its capabilities to participate in the economy as a self-sustaining profit-oriented small business will be obtained and utilized.

(2) Notification to Applicant to Submit Business Plan

When the regional administrator or district director makes a determination of availability of contract support the field office will notify the applicant in writing to submit a complete application including a business plan. Also, the letter shall state that a final decision pertaining to acceptance in the program will be made by the Associate Administrator for Minority Small Business and Capital Ownership Development.

If not previously distributed the appropriate 8(a) business plan application forms including SBA Forms 1010A, 1010B and 1010C, D, E or I, shall be included with the letter.

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(3) SBA Forms 1010, C, D, E, I "8(a) Business Plan"

The BDS is responsible for ensuring that the applicant concern receives the appropriate business plan form as follows:

(a) Form 1010C - "8(a) Business Plan for Service Businesses"

(b) Form 1010D - "8(a) Business Plan for Manufacturing Businesses"

(c) Form 1010E - "8(a) Business Plan for Construction Businesses"

(d) Form 1010I - "8(a) Business Plan for Retail and Wholesale Businesses"

Where an applicant's operation does not appear to fall within any of the four categories above, the applicant will be given the form most closely suitable for the particular line of business.

(4) Responsibility for Preparation

The responsibility for preparation of the business plan rests with the applicant. It is important that the principals responsible for operating the business be thoroughly involved in business planning to obtain maximum benefit from the process. If the regional administrator or designee determines that the applicant is in need of assistance, the BDS should make arrangements for the use of district or regional resources such as SCORE&ACE and SBA funded call contractors.

(5) Preparation

The business plan must show 8(a) and non-8(a) business projections separately and indicate primary and secondary product lines, services, or construction categories. The business plan must be signed and dated as indicated on the form in order to be accepted for review and evaluation.

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(6) Applicant Representatives

SBA Forms 1010 A, B, C, D, E and I require a listing of applicant representatives who assisted in the preparation, placement or filing of the 8(a) application. The representatives who did not sign or list all fees, bonuses, commissions or expenses paid or due on SBA Form 1010B, "8(a) Business Eligibility Statement", must verify and sign the appropriate section of SBA Form 1010C, D, E or I. The provisions of subparagraph 14h apply to all applicant representatives.

(7) SBA Form 370, "Representative Index"

Immediately upon acceptance of the business plan the MSB&COD division shall prepare an SBA Form 370 for each applicant representative not previously shown on SBA Form 1010B, and follow the procedures specified in subparagraph 14f.

(8) Review and Evaluation Committee

(a) District Committee

The district director shall designate a committee which shall meet as a group to evaluate each business plan and to make appropriate recommendations.

(b) Composition of District Committee

The District Committee shall be chaired by the ADD/MSB&COD and shall include the following

(i) The Assistant District Director for Finance and Investment.

(ii) The Assistant District Director for Management Assistance.

(iii) The Business Development Specialist who processed the application.

(c) Preparation for Committee Meeting

Each committee member shall have available before the meeting a copy of the business plan, all previously submitted application material such as personal and business eligibility statements, a copy of the completed SBA Form 1010G, "Determination of 8(a) Program Eligibility," any previously submitted comments by MA, and any other pertinent material in the case file. In addition, each committee member is responsible for the following prior to the committee meeting:

(i) BDS

The BDS is responsible for preparing the report on eligibility determination and information concerning availability of requirements, and shall document by memorandum report before the meeting an opinion on the production capability of the concern, the availability of existing and potential markets, the strengths and weaknesses of the concern and management, the potential for success, potential problem areas of the concern and a recommended solution to be implemented by the district office. He or she must be thoroughly familiar with the business plan and shall make at least one field visit to the concern prior to the committee meeting.

(ii) ADD/F&I

The ADD/F&I is responsible for a written analysis of financial statements received with the business plan as specified in SOP 50 10. The loan specialist's report shall show and the ADD/F&I shall be prepared to discuss at the meeting the applicant's credit position, including the concern's financial capacity to perform contracts and to what extent additional financing is recommended, including potential sources for obtaining such financing. In addition, the ADD/F&I shall ascertain whether the concern has an SBA loan, and if so, the repayment experience.

If the applicant has applied for an SBA loan or outside financing and the ability of the concern to meet its initial business plan objective is predicated upon receiving such financing, the committee shall not formally meet or make recommendations until a final decision on the application for financial assistance is rendered. If a loan is approved, a copy of the approved loan authorization and credit analysis shall be supplied to the committee.

(iii) ADD/MA

The ADD/MA shall verify that the applicant has attended the prebusiness workhop, that an MAO or counselor has visited the business concern and/or met with the applicant, that SBA Form 933 shows an evaluation of the management ability of the applicant, and that the management development plan shows immediate steps that should be taken to overcome deficiencies. During the meeting, as additional information about the applicant is revealed, the ADD/MA may revise the management development plan as appropriate.

(iv) District Counsel

Although not a member of the committee, district counsel will render a written opinion prior to the meeting on the legal sufficiency of the application as a whole in addition to the legal sufficiency of documents submitted by the applicant such as articles of incorporation, by-laws, management agreements, shareholder agreements, company control, etc. Counsel shall also serve as an advisor to the committee during its deliberation.

(d) Committee Meeting

The committee shall review and evaluate the business plan information compiled by its individual members as specified above, all application material and the pertaining analyses, and any other appropriate material contained in the 8(a) case file. The purpose of the Review and Evaluation meeting is to determine:

(i) If the applicant has the necessary management skills, organization, operational controls, materials, skills and facilities in order to achieve the business plan objectives, and eventually reach a competitive position in the marketplace.

(ii) If the applicant has access to cash or credit from banks or other financial institutions.

(iii) That necessary contract, financial, management and technical support is available to support the concern, and with such support there is a reasonable likelihood that the concern can develop a competitive position. After presentation of all facts, each committee member shall vote on whether there is a reasonable likelihood of the concern becoming competitive. The committee shall also prepare a plan of action for any additional assistance deemed necessary for the applicant not heretofore scheduled and documented. This is an ideal time to develop a coordinated SBA thrust in assisting a client.

(e) Committee Report

The committee chairperson shall prepare a report summarizing the pertinent details covered in the meeting, indicating the strengths, weaknesses and potential problem areas of the concern, and outlining the plan of action not previously documented to assist the concern. The report shall show how each member voted, with space provided for individual comments. Each committee member shall review and sign the final report and add any comments that would assist the AA/MSB&COD in reaching a decision.

(f) Negotiation of Fixed Program Participation Terms for Declined Applications

In the event the committee recommends that the application be declined, the committee report and the 8(a) case file containing the business plan, and all application material and reports shall be submitted to the district director - without the necessity of negotiating a Fixed Program Participation Term

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(FPPT). If the initial "decline" recommendation is reversed by the AA/MSB&COD, the entire file shall be returned to the district office for negotiation of an FPPT as per paragraph (9) below.

(9) Negotiation of Fixed Program Participation Term

Immediately after the committee recommends approval of an application and prior to submission of any report to the district director, a Fixed Program Participation Term shall be negotiated with the applicant. During the course of the negotiations, it is important to advise the applicant that negotiation of the FPPT is not tantamount to acceptance into the program. The following procedures shall be followed:

(a) The BDS will conduct an analysis of the business plan in accordance with the criteria for determining Fixed Program Participation Terms using Appendix 42 through Appendix 48. Points shall be ascribed to each factor listed and summarized on the summary page (Appendix 49) by the BDS.

(b) Scores in the following ranges indicate the following maximum periods of participation that the BDS is authorized to recommend by memorandum report to the review and evaluation committee:

0	-	150	4-5 years
151	-	250	3-4 years
251	-	325	2-3 years
326	-	375	1-2 years
			18 months

Negotiation of Fixed Program Participation Terms is to occur at the district office. However, any negotiation authority exercised by a BDS and the ADD/MSB&COD is subject, in all cases, to final approval by the AA/MSB&COD.

(c) 0 - 150 Points

(i) If the total score falls within the 0-150 point range, the BDS is authorized to negotiate a fixed program participation term for a period within a range of four to five years. If the applicant submits a proposed term of four years

or less, such term shall be recommended to the district director through the review and evaluation committee.

(ii) If the firm has submitted a proposed term of more than four years, the BDS shall immediately transmit a letter to the firm as per paragraph h below.

(d) 151 - 250 Points

(i) If the total score falls within the 151-250 point range, the BDS is authorized to negotiate a fixed program participation term for a period within a range of three to four years but no greater than a maximum of four years. If an applicant submits a proposed term of three years or less, such term shall be recommended to the district director through the review and evaluation committee.

(ii) If the firm has submitted a proposed term of more than three years, the BDS shall immediately transmit a letter to the firm as per paragraph h below.

(e) 251 - 325 Points

(i) If the total score falls within the 251-325 point range, the BDS is authorized to negotiate a fixed program participation term for a period within a range of two to three years but no greater than a maximum of three years. If an applicant submits a proposed term of two years or less, such term shall be recommended to the district director through the review and evaluation committee.

(ii) If the firm has submitted a proposed term of more than two years, the BDS shall immediately transmit a letter to the firm as per paragraph h below.

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(f) 326 - 375 Points

(i) If the total score falls within the 326-375 point range, the BDS is authorized to negotiate a fixed program participation term for a period within a range of one to two years but no greater than a maximum of two years. If an applicant submits a proposed term of one year or less, such term shall be recommended to the district director through the review and evaluation committee.

(ii) If the firm has submitted a proposed term of more than one year, the BDS shall immediately transmit a letter to the firm as per paragraph h below.

(g) Over 375 Points

(i) If the total score is over 375 points, the BDS is authorized to negotiate a fixed program participation term for a period within a range of one year to eighteen months. If an applicant submits a proposed term of one year or less, such term shall be recommended to the district director through the review and evaluation committee.

(ii) If the firm has submitted a proposed term of more than one year, the BDS shall immediately transmit a letter to the firm as per paragraph h below.

(h) The letter required to be sent to the 8(a) applicants in paragraph (c) through (g) above shall be sent and shall contain the following points (sample letter attached hereto as Appendix 50). (The points also indicate the procedures to be followed).

(i) According to an analysis based upon information submitted by the firm, a finding has been made that the firm's FPPT should be within a range of ___ years (lesser number of years authorized by total point score received by the firm) and ___ years (maximum number of years authorized by total point score received by the firm).

(ii) For firms scoring 151 points or above, cite the general areas in which the firm received high scores.

(iii) The lesser number of years in the range authorized will be adopted as the firm's FPPT unless SBA receives a letter from the firm indicating specific justification for a longer term.

(iv) The firm may also request a personal meeting with the Assistant District Director for Minority Small Business or his designee, and should do so within its letter of justification.

(v) If a personal meeting is not requested, but SBA is in receipt of the firm's letter, the BDS will review the written reasons for a longer period of participation and will advise the firm of the term to be recommended to the district director. The firm should be advised that the burden of proof is on it to present facts and information in support of its position. SBA is not authorized to recommend a Fixed Program Participation Term any greater than the maximum number of years authorized by the total point score received by the company. The firm must convince SBA that such maximum is warranted for its business based on facts presented by the firm.

(vi) If a personal meeting is requested, it should be held within ten business days of the request. At the meeting, the firm may present additional facts and information supporting its position. A personal meeting shall not obviate the necessity for a written response within the time period allotted.

(i) The BDS shall consider the facts and information presented in both the letter and the personal meeting and may or may not determine that the firm has presented sufficient facts and information to warrant a recommendation for an FPPT in excess of the term initially offered. Again, in no event may the BDS recommend an FPPT in excess of the maximum number of

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years within the range authorized by the total point score received by the firm. The BDS may make a determination that the firm has presented sufficient facts and information to warrant a recommendation for the maximum number of years within the range based upon any of the following factors: (but not limited to such factors)

(i) Alleged error or misinterpretation in SBA's initial evaluation.

(ii) Exceptional circumstances unique to the concern.

(j) The BDS shall advise the firm in writing of the term to be recommended to the district director. The recommendation shall then be forwarded to the district director through a memorandum report which shall include the reasons for the recommendation together with a copy of any letters and/or documentation submitted by the firm, the summary of the personal meeting, and the completed "Evaluation Factors" worksheet. In addition, all other application materials shall be submitted to district director.

(k) No terms in excess of the maximum authorized from the point score received by the firm from the "Evaluation Factors" shall be recommended by the BDS, the district director or the regional administrator.

(10) District Director Evaluation

(a) In all cases, the district director shall be forwarded the entire 8(a) case file containing the business plan, all application material, and reports.

(b) The district director shall append comments and a recommendation to the report. The comments and recommendation shall also address the firm's FPPT if the Review and Evaluation Committee has recommended approval of the firm.

(11) Regional Office

The ARA/MSB&COD and regional administrator shall review the District Committee report and accompanying material and shall prepare a summary memorandum addressing all eligibility items and a recommendation and forward the entire package under the signature of the regional administrator to the AA/MSB&COD. The regional administrator may wish to have the file reviewed by another staff member such as regional counsel. However, if the District Review Committee has conducted a comprehensive review then another regional committee review should not be necessary.

(12) Central Office

Upon receipt and date stamping by the mail clerk of the business plan package from the regional office, the general business and industry specialist (GBIS) shall screeen the information to determine if is sufficiently complete to allow a thorough evaluation.

(a) If the information is incomplete, it will be returned to the regional office with a listing of the incomplete items.

(b) If the information is complete, the GBIS will conduct an analysis of the package, complete the Central Office Application Review Sheet and recommend approval or disapproval to the AA/MSB&COD.

(c) If the application is approved and an FPPT was not negotiated at the district level, the file shall be returned to the district office for negotiation of an FPPT in accordance with paragraph 16(a)(9).

17. ELIGIBILITY NOTIFICATION PROCEDURES

a. Notification of Approval

All determinations of eligibility shall be made by the AA/MSB&COD. If an FPPT has been negotiated, the AA/MSB&COD will forward to the applicant the Participation Agreement section of the Business Plan containing the firm's Fixed Program Participation Term. The letter will notify the firm that no firm may be accepted into the 8(a) program without a Fixed Program Participation Term. Accordingly, the firm shall

be required to sign and return the "Participation Agreement" to the AA/MSB&COD prior to acceptance into the program. Upon return of the signed Participation Agreement, the AA/MSB&COD will notify the applicant by certified mail return receipt requested, of the final SBA decision.

Fixed Program Participation Terms for all accepted applicants begin on the date of award of the first section 8(a) subcontract. Such date shall be inserted in the Participation Agreement section of the business plan by the BDS and a copy sent to the firm upon execution of the first section 8(a) subcontract.

In addition, the AA/MSB&COD will cause the business plan to be annotated with the date of program participation approval and the Fixed Program Participation Term, sign the annotation in the appropriate space and forward the applicant's file with the approved business plan and a copy of the letter to the regional administrator.

b. Notification to Applicant to Decline

When the AA/MSB&COD notifies an applicant that the applicant has been declined, notice with the detailed reasons for decline will be furnished by certified mail, return receipt requested, with a copy to the regional and district offices. The letter will inform the applicant of the right to request within 30 days of receipt of the letter, reconsideration by the AA/MSB&COD. The letter will also inform the applicant to submit in writing to the field office any subsequent information and documentation pertinent to rebutting the reason(s) for decline, which was not available at the time of the decision. If application is declined after reconsideration, a reapplication will not be accepted within 12 months of the date of the reconsideration decision.

c. Review of Declination

When the request for reconsideration from the applicant is received, the district director and regional administrator shall append their comments and recommendations and forward the complete file to the AA/MSB&COD. The AA/MSB&COD will notify the applicant of the final decision and forward a copy of the notification letter to the regional and district offices. Approved requests for reconsideration shall be announced as approved applications.

S.O.P. CONTINUATION SHEET	S.O.P. SECTION	S.O.P. NO.	REV
	80	05	C

18. FIELD OFFICE ACTION FOLLOWING APPROVAL

a. Internal Action

(1) Upon notification of approval by the AA/MSB&COD, the regional office shall:

(a) Input pertinent information into the 8(a) Management Information System.

(b) Forward the applicant's file to the district director as appropriate.

(2) Upon receipt of the applicant's file in the district the ADD/MSB&COD shall:

(a) Insure that pertinent approval information has been entered into the 8(a) Management Information System.

(b) Initiate local buy requirements support activity as appropriate.

(c) Submit SBA Form 1167, "PASS Profile"

(d) Arrange for the provision of all management and technical assistance recommended by the Review and Evaluation Committee and approved by the AA/MSB&COD.

(e) Determine and request regional support required to fulfill business plan needs.

(f) Prepare statistical or other reports as required by Central or regional office.

(g) Submit a current SBA Form 1017 to the AA/MSB&COD when national buy support is required.

b. Notification to 8(a) Concern

The district office will advise the 8(a) concern in writing of the following:

(1) The limitation in the dollar amount of requirements support approved for the first year of program participation. Future support levels shall be approved as a result of the concern's annual review.

S.O.P. CONTINUATION SHEET	S.O.P. SECTION	S.O.P. NO.	REV
	80	05	C

(2) A statement that the SBA does not guarantee any level of requirements support nor does it guarantee any level of advance payments and business development expenses.

(3) The name of the BDS who will be responsible for servicing the 8(a) concern.

19. Business Plan Amendment

Eligible concerns shall be approved for 8(a) program participation according to their principal business activity as reflected in their business plan, i.e. non-professional service, professional service, construction, etc. A change in the 8(a) concern's primary business activity requires the approval of the AA/MSB&COD or designee. A change in the concern's primary or secondary standard industrial classification (SIC) code within its principal business activity requires the approval of the regional administrator or designee. Identification of a (SIC) code to a concern is for the primary purpose of marketing catagorization and future procurement requirement forecasting.

20. FIELD OFFICE ELIGIBILITY WORK FLOW SUMMARY

a. Determine availability of support

b. If positive determination of support is made, issue complete application package to applicant.

c. Receive and log application package.

d. Conduct review and analysis of application material.

e. Conduct field visit to applicant's place of business.

f. Makes recommendation of approval or decline. If approved recommended, negotiates Fixed Program Participation Term.

g. Forwards application to regional administrator.

h. Regional Administrator reviews and analyzes package, appends comments and makes a recommendation which he/she then forwards to the AA/MSB&COD for a final determination.

21. (Reserved)

22. (Reserved)

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23. (Reserved)

24. (Reserved)

25. (Reserved)

26. (Reserved)

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APPENDIX 35

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APPENDIX 36

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APPENDIX 37

(RESERVED)

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APPENDIX 41

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* APPENDIX 42 *

(Paragraph 16)

ECONOMIC DISADVANTAGE FACTOR

Place an (x) mark in the space that most appropriately describes the composite economic condition of the disadvantaged individual(s) upon whom eligibility is based and the economic condition of the applicant concern and record the appropriate point score on the summary page.

1. Personal Assets 1/

_____25,000 and below (0)

_____25,001 to 100,000 (5)

_____100,001 to 500,000 (10)

_____500,001 and above (20)

2. Business Assets

_____25,000 and below (0)

_____25,001 to 100,000 (5)

_____100,001 to 500,000 (10)

_____500,001 and above (20)

3. Personal Net Worth 1/

_____20,000 and below (0)

_____20,001 to 50,000 (10)

_____50,001 to 250,000 (20)

_____250,001 to 500,000 (40)

_____500,001 to 750,000 (100)

_____750,001 to 1,000,000 (150)

_____Over 1,000,000 (200)

4. Business Net Worth

_____20,000 and below (0)

_____20,001 to 50,000 (10)

_____50,001 to 250,000 (20)

_____250,001 to 500,000 (40)

_____500,001 to 750,000 (100)

_____750,001 to 1,000,000 (150)

_____Over 1,000,000 (200)

1/ Use average of individuals upon whom eligibility is based if more than one. Do not include value of 8(a) business in personal networth.

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5. Personal Income[2] (2 yr. average)

____20,000 and below (0)

____20,001 to 50,000 (5)

____50,001 to 150,000 (15)

____150,001 and above (30)

6. Business Income (Gross Sales)[3]

____200,000 and below (0)

____200,001 to 500,000 (5)

____500,001 to 1,500,000 (15)

____1,500,001 and above (30)

7. Business Profits[4]

____20,000 and below (0)

____20,001 to 50,000 (5)

____50,001 to 150,000 (10)

____150,001 and above (20)

8. Access to Credit and Capital -

a. Ability to Obtain Working Capital from Commercial Sources

____Financing generally unavailable (0)

____Financing not available at reasonable terms and/or without government guarantees (5)

____Financing available at reasonable rates without guarantees (10)

b. Ability to Obtain Long Term Financial from Commercial Sources

____Financing generally unavailable (0)

____Financing not available at reasonable terms and/or without government guarantees (5)

____Financing available at reasonable rates without guarantees (10)

2/ Use average of individuals upon whom eligibility is based if more than one
3/ Immediate past two company fiscal year average
4/ Immediate past two company fiscal year average, before taxes

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c. Ability to Obtain Trade Credit for Raw Materials and/or Supplies

___Vendors will not extend normal credit (0)

___Vendors will extend normal credit terms (10)

d. Ability to Obtain Credit Terms for Equipment

___Vendors will not extend normal credit (0)

___Vendors will extend normal credit terms (10)

9. Bonding Capability

___Bonding unavailable or not required (0)

___Bonding available only with guarantees or higher rates (10)

___Bonding available at prevailing rates without guarantees (20)

10. Availability of Outside Equity

___Equity unavailable (0)

___Equity unavailable at customary terms and conditions (5)

___Equity available at customary terms and conditions (10)

11. Available Markets

___Limited penetration of competitive market (0)

___Moderate success with competitive market penetration (5)

___Successful penetration into competitive markets (10)

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* APPENDIX 43 *

(Paragraph 16)

8(a) CONTRACT SUPPORT FACTOR

Place an (x) mark in the appropriate space and record score on summary page.

1. Total projected levels of contract support (over firm's proposed fixed program participation term)

   ____1,000,000 and below (0)

   ____1,000,001 to 2,000,000 (5)

   ____2,000,001 and above (10)

2. Percentage of decrease (over firm's proposed fixed program participation term)

   ____50% or more decrease (0)

   ____less than 50% decrease (5)

   ____no decrease (10)

   (Calculation: Year 1 of FPPT projected 8(a) dollars minus final year of FPPT projected 8(a) dollard divided by year 1 of FPPT projected 8(a) dollars = % decrease)

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* APPENDIX 44 *

(Paragraph 16)

NON 8(a) CONTRACT SUPPORT FACTOR

Place an (x) mark in the appropriate space and record score on summary page.

1. Total projected levels of non-8(a) contract support (over firm's proposed fixed program participation term)

   ____1,000,000 and below (10)

   ____1,000,001 to 2,000,000 (5)

   ____2,000,001 and above (0)

2. Percentage of increase (over firm's proposed fixed program participation term)

   ____100% (0)

   ____50% to 90% (5)

   ____Less than 50% or no increase (10)

   (Calculation: Final year of FPPT projected non-8(a) Dollars minus year 1 of FPPT projected non-8(a) Dollars divided by year 1 of FPPT projected Dollars)

S.O.P. CONTINUATION SHEET	S.O.P. SECTION	S.O.P. NO.	REV
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* APPENDIX 45 *

(Paragraph 16)

LENGTH OF TIME FACTOR

Place an (x) mark in the appropriate space and record score on summary page

Projected length of time necessary
to achieve competitiveness

____0 - 3 years (0)

____over 3 years (5)

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* APPENDIX 46 *

(Paragraph 16)

ADVANCE PAYMENT FACTOR

Place an (x) mark in the appropriate space and record score on summary page

Projected Advance Payments necessary to complete contracts over the proposed term

_____200,000 and below (0)

_____200,001 and above (5)

* APPENDIX 47 *

(Paragraph 16)

BDE FACTOR

Place an (x) mark in the appropriate space and record score on summary page

Projected BDE necessary to complete contracts over proposed term

____200,000 and below (0)

____200,001 and above (5)

S.O.P. CONTINUATION SHEET	S.O.P. SECTION	S.O.P. NO.	REV
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* APPENDIX 48 *

(Paragraph 16)

RELIANCE UPON PROGRAM SUPPORT FACTOR

Place an (x) mark in the appropriate space and record score on summary page

1. Projected decrease in reliance upon 8(a) contract support over proposed term

   _____50% or more decrease (0)

   _____less than 50% decrease (5)

   _____no decrease (10)

   (Calculation: Year 1 of FPPT projected 8(a) Dollars minus Final year of FPPT projected 8(a) Dollars divided by year 1 of FPPT projected 8(a) Dollars = % decrease)

2. Projected decrese in reliance upon Advance Payments over proposed term

   _____50% or more decrease or no reliance (0)

   _____less than 50% decrease (5)

   _____no decrease (10)

   (Calculation: Year 1 of FPPT projected AP Dollars minus Final year of FPPT projected AP Dollars divided by year 1 of FPPT projected AP Dollars = % decrease)

3. Projected decrease in reliance upon Business Development Expense over proposed term

   _____50% or more decrease or no reliance (0)

   _____less than 50% decrease (5)

   _____no decrease (10)

   (Calculation: Year 1 of FPPT projected BDE Dollars minus Final year of FPPT projected BDE Dollars divided by year 1 of FPPT projected BDE Dollars = % decrease)

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* APPENDIX 49 *

(Paragraph 16)

SUMMARY PAGE

			Points Awarded
Economic Disadvantage (Maximum 620 Points)			
1.	Personal Assets	(Maximum 20 Points)	_____
2.	Business Assets	(Maximum 20 Points)	_____
3.	Personal Net Worth	(Maximum 200 Points)	_____
4.	Business Net Worth	(Maximum 200 Points)	_____
5.	Personal Income	(Maximum 30 Points)	_____
6.	Business Income	(Maximum 30 Points)	_____
7.	Business Profits	(Maximum 40 Points	_____
8.	Access to Credit & Capital	(Maximum 40 Points)	_____
9.	Bonding Capability	(Maximum 20 Points)	_____
10.	Availability of Outside Equity	(Maximum 10 Points)	_____
11.	Available Markets	(Maximum 10 Points)	_____
	8(a) Support Factor	(Maximum 20 Points)	_____
	Non 8(a) Support Factor	(Maximum 20 Points)	_____
	Length of Time Factor	(Maximum 5 Points)	_____
	Advance Payment	(Maximum 5 Points)	_____
	EDE Factor	(Maximum 5 Points)	_____
	Reliance Upon Program Support Factor	(Maximum 40 Points)	_____
	Grand Total	(Maximum 715 Points)	_____

SCALE

0-150 points	5 years
151-250 points	4 years
251-325 points	3 years
326-375 points	2 years
over 375 points	1 year - 18 months

* APPENDIX 50 *

Paragraph (16)

SAMPLE FPPT LETTER

U.S. Government
SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20416

Dear (Applicant):

Public Law 96-481 requires that no firm may be admitted to the section 8(a) program without a Fixed Program Participation Term. Accordingly, the proposed Fixed Program Participation Term (FPPT) contained in your business plan has been reviewed together with additional data submitted in connection therewith.

Pursuant to rules and regulations published at 13 C.F.R.124.1-1(f), SBA is required to negotiate such terms after consideration of several factors. A careful analysis of all the factors required to be considered has resulted in a finding that your FPPT should be within a range of ____years (insert lesser number of years in range authority by total point score received) and ____years (insert maximum number of years in range authorized by total point score received). The recommendation is based on the following factors:

(Cite items in "Economic Disadvantage Factors" in which firm received a high score)

and/or

(Cite other items in Figures II - VII as appropriate which caused firm to receive high score)

As a result of your showing in the above areas, a Fixed Program Participation Term of ____years (insert lesser number of years in range authorized by total point score received by the firm) will be adopted unless we receive from your firm a letter indicating specific justification for a longer term within the range noted above.

Among the criteria which SBA will consider for extending this term within the range noted above are the following:

1. Alleged error or misinterpretation in SBA's initial evaluation.

2. Exceptional circumstances unique to your concern, such as,

a. additional time needed to coincide with loan repayment terms, or other business planning schedules, and/or

b. extraordinary unforeseen events have had a temporary adverse impact on your concern's operations.

You may request a meeting with the Assistant District Director for Minority Small Business (or his designee) to discuss the proposed participation term for the purpose of arriving at a negotiated date. Such a request shall not obviate the need for your firm to provide SBA with your written justification within the time specified above. Personal appointments should be held within ten business days of your request.

SBA will review your reasons for a longer period of participation and will advise you, after our review, of the term to be recommended. Please be advised that the burden of proof is on you to present facts and information in support of your posistion. We are not authorized to recommend nor approve a Fixed Program Participation Term any greater than ___years (insert maximum number of years in range authorized by total point score received by the firm) for your firm. You must convince us that such maximum period is warranted for your business. Please be advised that negotiation of a Fixed Program Participation Term is not an amount to acceptance in the 8(a) program, that the decision can only be made by the Associate Administrator for Minority Small Business and Capital Ownership Development according to the law.